モノづくり Monozukuri

# Manufacturing for the brighter future

## AICHI STEEL REPORT 2009

AICHI STEEL

# ABOUT AICHI STEEL REPORT 2009

## ■ Introduction

Aichi Steel Corporation (“Aichi Steel” or the “Company”) has published an annual “Environmental Report” since 1998, which was subsequently upgraded to the “Aichi Steel CSR Report” in 2006 to report to the public the Company’s activities conducted to fulfill its social responsibilities. In 2008, the Company combined its CSR report with the Annual Report to expand the scope of the report to disclose all information regarding Aichi Steel to all stakeholders, including the business activities and operating results of Aichi Steel.

## ■ Editorial Policy

We have placed our focus on disclosing the activities of Aichi Steel and the Aichi Steel Group during fiscal 2008 as much as possible, and enhancing all stakeholders’ understanding of and confidence in our business and social activities.
Colors and universal designs are adopted to make the presentation easy-to-see and easy-to-understand for readers.

## ■ Structure of the Report

The first part of this Report comprises the “Message from the President,” the “Corporate Profile” (including financial statement data for fiscal 2008), and “Highlights” comprised of three parts describing our major CSR activities during fiscal 2008 and relevant messages. These are followed by a description of our business management foundation, “CSR Policies and Outlines.” The results and progress of other activities are reported in the “Social Relations” “Environmental” and “Financial” sections in the latter half of this Report.

## ■ Editorial Design

In preparing this Report, we have placed emphasis on using simple and easy-to-understand expressions as far as practicable to ensure that readers correctly understand the activities of the Aichi Steel Group. Technical terms and other special expressions that may be difficult for general readers to understand are explained in Footnotes as necessary. URLs of the relevant pages of the Company’s Website are also included to help readers refer to relevant information.

## ■ Readers

This Report is intended for our customers, suppliers and other business partners, shareholders and investors, citizens in neighboring communities, affiliated companies and our employees.

## ■ Report Period and Scope

This Report covers activities conducted by the Aichi Steel Group during fiscal 2008 (April 2008 to March 2009). However, some activities conducted before or after fiscal 2008 are also explained as necessary.

## ■ Company Name

In this Report, Aichi Steel Corporation is referred to as “Aichi Steel” or the “Company,” and the entire corporate group comprised of the Company and its consolidated subsidiaries (see Page 7) is referred to as the “Aichi Steel Group.” Overseas subsidiaries may be referred to by their shortened names (see Page 7).

## ■ Release

October 2009 (The next report will be released in the summer 2010.)

## ■ Contact

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**Mission Statement**

1. We will strive to make a positive contribution to society with safe, appealing and useful technology and products.
2. We will nurture a corporate culture based on trust, reliability and the pursuit of excellence.
3. We will be a good corporate citizen, ever mindful of our environment responsibilities.

**CSR Policy**

We will contribute to the sustainable progress of society and the Earth through our sound corporate activities.

**CSR Vision 2015**

– We will gain the trust and confidence of and give satisfaction to our customers and all other stakeholders.
– We will develop employees who are open and fair, developing a corporate culture characterized by a challenging spirit.

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# Message from the President

## The current economic difficulties are an opportunity for strengthening our business and financial structure. The Company has accelerated its reform programs in order to attain Vision 2015.

Shokichi Yasukawa,
President

## Under the slogan “It’s the time to rebuild ourselves” we are working on strengthening for the future

### ●In fiscal 2008, the global economy and industries worldwide experienced historical ordeals. What impact did these difficulties have on the Company and what actions has the Company taken?

In the first half of the year, we succeeded in reporting profits under challenging circumstances where the prices of many materials had risen sharply, through our groupwide cost reduction efforts. However, since the financial crisis occurred in October 2008, demand has sharply declined in the automobile and construction machine industries, the major customers of the Company. The production volume of the Company has also contracted significantly. Consequently, the Company reported a decrease both in revenues and profits for the full year of fiscal 2008.

However, these economic difficulties have offered us a great opportunity to drastically change our conventional business approaches and systems and eliminate unnecessary processes/expenditures and inconsistencies that had been overlooked during the previous busy period. I think this will result in reinforcement of the Company’s business and financial structures in preparation for growth recovery. We have established “Vision 2015,” which envisages the ideal state of the Company to be realized by 2015. To attain this vision, the entire organization of the Company is working hard to correct the distortions generated in “manufacturing processes, business approaches, costs, and the organization of the Company.” In short, we need to return to the very starting point of the Company.

### ●Could you give us some examples of the Company's efforts toward structural reinforcement?

"Z100" (*) is our symbolic project with the goal of reducing production costs by 10 billion yen in two years. To achieve this goal, all manufacturing processes should be reviewed. Efforts in profit creation should be made throughout the entire organization, including reduction of quality-related losses, yield rate improvement and improvement in procurement and physical distribution.

One of the important points of this project is a change in how costs should be perceived. Naturally, the cost assumed for an output peak scenario should be reduced when the production volume is reduced. In addition, how material costs, energy costs, inventories, labor costs and other costs should be treated has been drastically changed.

Many of the costs that have been treated as fixed costs are actually variable costs that can be reduced. The real fixed costs are basic salaries paid to workers and depreciation costs; all other costs are variable costs. Viewing things from this angle, you may find the power consumption when the facilities are not operating to be too large, and thus consider ideas for power saving.

Managers and leaders in the workplace should look at the costs and cost sources from a new perspective. Thus, losses generated at various stages are "visualized," changing the nature of cost-saving efforts from makeshift measures to fundamental reform of the cost structure. By eliminating all unnecessary processes to achieve quicker, leaner and simpler development or production processes, I believe we can become the "world's leading integrated manufacturer of steel and forgings" as envisaged in Vision 2015, supported by robust manufacturing systems.

Meaning of "Z100": This stands for three Japanese keywords starting with "Z":"*Zikkou-suru*" (execute), "*Zitsugen-suru*" (realize), and "*Zettai-yarinuku*" (follow through with mission). It is also derived from the Japanese expression "Z Flag" (This means to fight with all our effort and with our backs against the wall.).

## Polish "thoughtful initiative" to enhance productivity and create personal time

### ●You have started the "Halve-the-Time Campaign" within the Company. What is the aim of this campaign?

Life is valuable and irreplaceable. The time allotted to an individual person is limited. So, time can be seen as life itself. I want all people at Aichi Steel to use time effectively and achieve their responsibilities quickly so that they can enjoy their personal life after work, spend quality time with their families, enjoy hobbies and sports, take time to educate themselves in order to enhance their personal and business skills, and play an active role in community activities.

Each employee enjoying his/her personal life will become a vital force in supporting the foundation of the CSR management.

To set this lifestyle in place, we must create personal time for ourselves by improving the productivity of our daily operations. We must always question whether the work process is right, and need to demonstrate "thoughtful initiative," that is, an ability to act with thoughtfulness.

In Project Z100, I have given a directive to set targets and assess attainment levels by viewing each quarter (three months) as if it were a full year. In this way, managers can see a full year plan as if it were a four-year plan and a three-year plan as a 12-year plan. This approach will create a density in the contents of the plan and a sense of speed in their mind. Managers of individual departments must demonstrate thoughtful initiative and seriously plan out targets and processes to achieve the set targets. When this way of working is set in place, the organization will become robust, and I believe that this approach will bring about overwhelming power to Aichi Steel in the near future.

#### 2015 Vision – Challenge to Innovation

To continue global business growth as a recycling-oriented enterprise and to strive to become a corporate group favored by local communities and society

To grow into the world's leading integrated manufacturer of steel and forgings through quality and technology

To contribute to global environmental protection and the evolution of the automobile through the development of cutting-edge materials

#### Basic Medium-Term Management Policies

1. To work to become the world's leading integrated manufacturer of steel and forgings by "proactive approach"
2. To grow as an innovative enterprise through our "one-of-a-kind" products
3. To contribute to global environmental protection as a recycling-oriented enterprise

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# Business Update

# Message from the President

## Striving to become an enterprise long-trusted by stakeholders with the corporate culture "1S"

## No. 1 in our Core Business and One and Only in our New Business

### ●The states of society, economy and industry have been changing recently. What policies must we follow under such circumstances to ensure the continuance and significance of Aichi Steel's business in the future?

Since the onset of the economic crisis in 2008, world conditions have obviously changed. The era of endless resource consumption has come to an end. As demonstrated by the Green New Deal in the United States and the worldwide eco-car popularization, people's senses of values have drastically changed. Without a doubt, we are now standing at a turning point of history. I think the social and industrial landscapes will have completely changed in 2015.

Of course, major customers of Aichi Steel will also have restructured the direction of their reserch and development, taking into account the changes of growing business sectors. In this era of a big paradigm shift, it is important to anticipate change and take preemptive steps. We are now exploring the movement of technical development in the Toyota Group and other customers to determine which fields Aichi Steel should emphasize in the future while taking advantage of its strength in its current businesses.

### ●Under these circumstances, the growth of new business fields is expected.

Steel and forgings are the core businesses of the Company. Since huge machines are necessary to make iron and steel, even if we experience a temporary economic downturn, we must plan the renewal of our production facilities based on the analysis of our business competitiveness for the next few decades and repeat reengineering of facilities to pursue further improvement of our productivity.

On the other hand, by expanding our unique technologies established through R&D of specialty steel, we have also strived for exploration into and development of new businesses, which should become another pillar of the Company business. Development of “MAGFINE” (high performance neodymium type plastic magnet), “MI Sensor” (high sensitive magnetic sensor), “MAGFIT” (dental magnetic attachment), and iron ion-supplying plant growth activator “TetsuRiki-Agri” has advanced to the commercialization stage. I think 2009 and 2010 will mark a turning point for the our new business.

As envisaged in Vision 2015, we will aim to become Number One in our core business by taking advantage of our strength as an integrated producer of steel and forgings, and One and Only in our new business areas demonstrating our unique technological ability.

## Stepping up to the second phase of CSR upholding the concept of "body, heart and mind"

### ●In fiscal 2008, Aichi Steel has stepped up to the second phase of its Medium-Term CSR Plan. As we have completed laying the foundation, what are your plans for the future?

The most important corporate social responsibility (CSR) to be fulfilled by an enterprise is the permanent continuance of its business. I believe it is our mission as a corporation to create employment through sound business management, pay our taxes, and satisfy the expectations of our many stakeholders who support the Company.
Fiscal 2008 was the first year of the second phase of the Medium-Term CSR Plan. However, because of the sharp slowdown of the world economy, Aichi Steel could not fulfill its responsibility in the business performance. We are a recycling-oriented company. The main business of the Company is to reproduce high value-added specialty steel from useless scrap iron. As we manufacture products, we are contributing to the realization of a recycling-oriented society. Thus, we will speed up the structuring of a robust manufacturing system through the previously mentioned Project Z100, aiming at reporting profits in the second half of fiscal 2009 and resuming growth quickly once economic conditions recover. To actively contribute to the prevention of global warming, we also set a new goal to "achieve a 20% reduction in our $CO_2$ emissions by 2015 compared to the level in 1990." We will work hard to achieve this goal by implementing manufacturing process reform focusing on the keywords "simple, slim, short and straight."

### ●What do you think is the most important factor for Aichi Steel to retain its status as an enterprise trusted by stakeholders?

I believe "sincerity" is the most important element for all actions taken by an enterprise and is a basis for compliance. People make minor mistakes. But it is important to honestly report the mistakes we make and visualize them so that they can be shared by all people within the Company to prevent serious mistakes or accidents in the future. Incorporating this concept of "sincerity," I want to establish and build "1S" as the corporate culture of Aichi Steel. This "1S" slogan conveys our message that our first (1st) priority should be placed on the three Ss, that is, "Shojiki" (Sincerity), "Seisou" (meaning cleanliness in Japanese), and "Safety First." "Seisou" or cleanliness is the basis for improving quality and productivity. "Safety First" will ensure risk detection and strict compliance with rules.
In terms of CSR, these are the responsibilities we should fulfill. At the same time, it is also important to be aggressive in strategically promoting CSR. Leaders in individual departments should take the lead in demonstrating the sprit of "body, heart and mind."

"Body" means the toughness to get things done and making good your promises. "Heart" means high aspiration and strong will. "Mind" means thinking about things using rules and principles and finding problems and new directions. These are consistent with the concept of "ambition, learning, and achievement" that has been an integral part of the "AICHI Spirit" inherited as the DNA of Aichi Steel.

With the "1S" corporate culture and the concept of "Body, Heart and Mind" set in place and permeating throughout the Company, I strongly believe that a path will open for us no matter how tough the business conditions, and that Aichi Steel will continue growing as an indispensable company trusted by many stakeholders and society.

## Business Update
# Corporate Profile

## Outline of Aichi Steel Corporation

**[Establishment]** March 8, 1940
**[Capital]** 25,016 million yen (as of March 31, 2009)
**[Representative]** Shokichi Yasukawa, President
**[Employees]** 2,331 (as of March 31, 2009)
**[Business Description]** Production and sale of specialty steel products, forgings and electromagnetic products
**[Offices]** Head Office: Tokai-shi, Aichi, Japan
Sales Offices: Tokyo / Osaka / Hiroshima / Fukuoka
Overseas Offices: Shanghai / Seoul
Plants: Chita / Kariya / Forging / Higashiura / Gifu
**[Customers and Suppliers]**
Major Customers: Toyota Tsusho Corporation / Toyota Motor Corporation / Aisin AW Co., Ltd.
Major Suppliers: Toyota Tsusho Corporation / Mitsui & Co., Ltd.

### The birth of Aichi Steel

In 1926, Sakichi Toyoda, recognized today as one of Japan's foremost inventors, founded Toyoda Automatic Loom Works, Ltd. (currently Toyota Industries Corporation). His eldest son, Kiichiro Toyoda, saw the need for promoting Japan's automobile industry, and set up a research center in the Steel Production Department to develop specialty steel for automobiles. This was the starting point of the history of Aichi Steel. In 1940, this Department developed into Toyota Steel Works, Ltd. (the name was changed to Aichi Steel Works, Ltd. in 1945). Kiichiro believed that manufacturing and materials technology were of equal importance in automobile manufacturing. Realizing the necessity of supplying high-quality materials that were right for the job, he came up with the R&D principle, "Great cars are made of great steel." Aichi Steel continues to adhere to this principle, supplying the automobile industry and many other industries with high-quality specialty steels and forgings.

## Major Products

For details, please refer to our Website. http://www.aichi-steel.co.jp/ENGLISH/pro_info/index.html

### Specialty steel

Specialty steel is manufactured by adding alloys and metallic elements to iron to improve material properties such as strength, hardness, toughness, wear resistance, heat resistance, and corrosion resistance.

### Forgings

Forgings are produced by pressing and forging specialty steel by various forging machines. Forgings are used in automobiles, construction machines and manufacturing machines that require strength and durability.

### Major products

**Specialty steel:** Structural steel, free-cutting steel, spring steel, etc.

**Forgings:** Crankshaft, differential ring gear, rear axle shaft, etc.

**Stainless steel:** Shaped stainless steel, round bar, wire rod, etc.

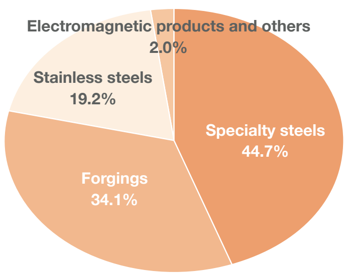
### Stainless steel

Tough and corrosion-resistant, stainless steel is used in applications related to water such as dams, sluices, and ships. They are also used in chemical and nuclear power plants as well as in everyday utensils.

### Electromagnetic products / TetsuRiki-Agri

Using our know-how in specialty steel manufacturing, we develop electronic parts, magnets and sensors. In addition, "TetsuRiki-Agri" that promotes plants' growth through the latent power of iron has been developed as well.

### Sales Mix (in amount, non-consolidated basis)



## Financial Data (Consolidated and Non-Consolidated)

Unit: millions of yen (Any figure less than one million yen is discarded.)

| | Consolidated | | | Non-Consolidated | | |
|---|---|---|---|---|---|---|
| | Fiscal 2008 | Fiscal 2007 | Change from previous year | Fiscal 2008 | Fiscal 2007 | Change from previous year |
| Net sales | 222,060 | 253,462 | -12.4 | 181,317 | 202,859 | -10.6 |
| Operating income | -482 | 10,884 | - | -3,208 | 6,559 | - |
| Ordinary income | -1,804 | 9,332 | - | -3,476 | 6,087 | - |
| Net income | -14,105 | 5,692 | - | -14,572 | 3,837 | - |
| Net assets | 104,395 | 128,155 | -18.5 | 95,919 | 115,614 | -17.0 |
| Total assets | 220,017 | 264,048 | -16.7 | 200,006 | 236,097 | -15.3 |

## Aichi Steel Group

For details, please refer to our Website. **http://www.aichi-steel.co.jp/ENGLISH/com_info/a_group.html**

### Subsidiaries in Japan (9 subsidiaries)

- Aiko Corporation
- Aichi Ceratec Corporation
- Omi Mining Co., Ltd.
- Aichi Techno Metal Fukaumi Company
- Aichi Steel Logistics Co., Ltd.
- Aichi Information System Company
- Aiko Service Co., Ltd.
- Aichi Micro Intelligent Corporation
- Asdex Corporation

### Affiliates

- Tokai Special Steel Co., Ltd.

### Overseas subsidiaries (8 subsidiaries)

- Aichi Forging Company of Asia (AFC)
- Aichi Forge USA, Inc. (AFU) *
- Aichi Europe GmbH (Ae)
- Aichi International (Thailand) Co., Ltd. (AIT)
- Shanghai Aichi Forging Co., Ltd. (SAFC)
- PT. Aichi Forging Indonesia. (AFI)
- Aichi Magfine Czech s.r.o. (AMC)
- AMIT, Inc.

* In April 2009, Aichi USA, Inc. (A-USA), the regional headquarters in the United States, and Louisville Forge and Gear Works, LLC. (LFG) were merged, and the company name was changed to Aichi Forge USA, Inc.

CSR Activities Highlight 2008

# Monozukuri (Manufacturing)

## Striving to see things from the customers' point of view, we will provide high value-added products unique to Aichi Steel to the global market and to new business fields

Kunio Kubo, Managing Director

## Establishing specialty steels and forgings development/production systems capable of handling changes in market needs

As production on a global scale has expanded in many industries, customers' requirements for specialty steel and forgings have changed. While materials with advanced properties are demanded in mature product markets, generality and low cost products are required in emerging markets. To satisfy customers in each of these distinct markets, it is important to differentiate ourselves from competitors by pursuing product quality unique to Aichi Steel, regardless how our products are used in customers' products.

Since the economic crisis in the fall of 2008, automobile manufacturers have accelerated their development and diffusion of hybrid cars and electronic vehicles, aiming at creating new demand. Companies in other industries are also strengthening their development efforts to realize early introduction of new-generation products into the market. The development process of such innovative products by customers will need new materials and shaping technologies. As a material manufacturer and development partner, we should demonstrate to customers our willingness to participate in their projects from the new product planning stage and to develop new technologies and materials in close cooperation with customers. Therefore, we are exploring customers' movements in R&D activities and technology application and identifying even the smallest changes, in order to find new business fields where we can take advantage of our strength as an integrated steel and forging manufacturer.

## Expanding the application range of stainless steels and electromagnetic products

Stainless steel is resistant to rust and boasts high durability and designability. In particular, Aichi Steel enjoys the greatest share of the market in shaped stainless steels, supported by its ability to create various shapes with its unique rolling technology. Our shaped stainless steels are used in the construction of buildings, tunnels, dams and tankers, nuclear power plants, LNG tanks, pharmaceutical product manufacturing plants, and many other plants. The range of applications has been expanding every year. Since the latent demand to replace iron with stainless steel has been increasing recently, the Company now emphasizes finding potential end-users by forming a market exploration team.

We are also planning to market magnetic material products, which can be incorporated as core technologies into hybrid cars, EVs and other eco-friendly cars expected to dominate the future automobile market. Specifically, with its world leading magnetic properties, our "MAGFINE" has enabled downsizing and a 50% weight reduction of the automobile DC motor. Since this technology will enable weight reduction of automobiles (which will result in improvement in fuel consumption) and improvement in convenience, expansion in global demand is expected. In addition to the seat motor, which has already incorporated our MAGFINE, we will promote the use of MAGFINE in other components of automobiles where electric motors are or can be used.

In addition, we will strive to firmly accommodate the increasing demand for magnetic sensors generated by the rapidly expanding demand for GPS mobile phones and actively market the new 6-axis sensor developed by the Company for various applications.

## Enhancing the value of the "Aichi" brand

Structures of industries are drastically changing mainly in the environmental and energy areas. To maintain business growth under such circumstances, it is important for Aichi Steel to enhance the value of its Aichi brand by making use of the synergy brought about by its robust manufacturing technologies cultivated in the area of specialty steels for automobiles, its integrated forging production system contributing to reductions in lead times, and other technologies derived from specialty steel R&D, including magnetic materials and sensors.

To achieve this, in accordance with our principle of "monozukuri-manufacturing from the viewpoint of customers," we must promote collaboration between the marketing department and the development department to quickly identify latent needs in society and urgently establish a solution-type business model that proposes a solution for a customer's problem or difficulty.

## Six million tons of output

The aggregate output from our flat steel rolling plant reached six million tons in fiscal 2008.

Since the commencement of production in 1944, the plant has adopted various new technologies and repeated facility improvements in order to improve product quality and productivity. In 1951, the plant began mass production of flat spring steels. Along with the progress of motorization throughout the world, the plant has undergone several large modifications in order to produce flat spring steels of higher quality and now operates as a rolling plant dedicated to flat steel production.

Flat spring steels produced by this plant account for about 80% of the market share in Japan. We will continue our quick delivery of high quality products to meet customers' expectations.

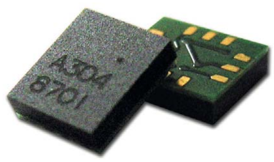
## Our stainless steel was newly adopted in the Kanmon Highway Tunnel

The Company's shaped stainless steels were newly adopted as a support for the concrete mounted on the ceiling during the ceiling board repair work of the Kanmon Highway Tunnel. Since stainless steel excels in safety, durability and fire resistance, its application range has recently expanded to civil engineering works.

Our welded T-shaped steel and rolled flat steel bar were adopted by this project (totaling about 350 tons) and the repair work has been successfully completed.

## New products and technologies have been introduced into the market

Our electromagnetic product business has actively been engaged in development activities to develop products/technologies that will support the business's steady growth. In fiscal 2008, our world's first "3-axis magnetic gyro sensor" was introduced into the market (September). In October, the "miniSD card" incorporating an MI sensor was introduced. In November, the "underground mall navigation technology" using a high-sensitive MI sensor was introduced. We will explore new demand for these products and technologies.

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CSR Activities Highlight 2008

# Hitozukuri (Human Resources Development)

## We place emphasis on relationship and communication among generations, aiming at developing employees who can form their own visions.

Kikuo Kito, Senior Managing Director

### Manufacturing is supported by the development of people. People are valuable assets for the company

For an enterprise to grow permanently, employees' high morale and motivation, constant vitalization of the organization, and a corporate culture imbued with a challenging spirit are essential. And people constitute the foundation of that growth. Employees are the greatest resources of any enterprise. Dynamic manufacturing is supported by the straightforward efforts of human development. This policy of human resources has not changed since the foundation of Aichi Steel and has supported the growth of Aichi Steel.

Therefore, although in fiscal 2008 we have experienced the greatest upheaval of the global economy in a century, we continued to recruit new employees at almost the same rate as in previous years, in order to secure human resources for the future and maintain a proper balance among generations.

At the same time, to demonstrate our leading competitiveness in the rapidly changing market and industrial structure, it is vital for the Company to develop employees who can take the initiative to form future visions and act flexibly, turning crises into opportunities. Thus we emphasize leadership training of young employees in accordance with our medium-term human resources development plan. Restructuring of the employee education system has also been implemented.

### Promotion of communication across generations, departments and positions

Team work supported by corporate culture that is open across generations and departments is indispensable for productive and high-quality manufacturing. Good communication is the basis of such corporate culture. The Company has placed emphasis on and promoted communication among employees in various opportunities during fiscal 2008.

For example, the "Iki-Iki Aichi Team" campaign began in January 2008. Young officers, executives and managers stood at the office gate every morning and greeted employees. This campaign continued for one year. The Employee Manner Book and the Mail User Guideline were also created in cooperation with young employees in order to improve employees' etiquette when communicating with other people. These actions helped smooth communication in the workplace.

In departments where technological skills are required of employees, a tutor system is adopted. A senior employee is paired as a tutor with a new employee and teaches the young employee how to do the job and gives advice as needed. On-site lecturing programs are also provided. A "Meister" of specific skills is dispatched to a workplace and gives lectures or training on the skill he mastered to the next generation of employees. In the past, it was a traditional practice that a master handed down his skill to his apprentices through keen coaching. To hand over the unique skills accumulated in Aichi Steel to succeeding generations, we have devised a modern arrangement of this traditional apprenticeship so that it can be accepted by young employees today.

## Show our gratitude for 70 years of history by social contribution to the community

In 2010, the Company will celebrate its 70th anniversary in business. We have been able to continue our business as one of the leading companies in the region precisely because the local community has supported our Company and its activities. To show our gratitude to the community, we are actively participating in community activities centered on the key words "Clean," "Green," "Creative," and "Volunteer."

As we have continued these sincere efforts for long years, more and more local people feel an affinity to the Company, and job applications from the local community have been increasing every year.

While economic conditions remain severe, it may be difficult for the Company to contribute to the community in terms of economic contribution for the time being. Under such circumstances, each employee must take part in various social activities as a member of the community with a strong sense of CSR, to afford members of the community a feeling of amicability and closeness to the Company. I believe this will foster pride and promote the personal development of employees and give them strong work motivation.

## First female trainees learning in the Technical Training Institute

From the recruitment of new graduates in fiscal 2009, the first female trainees have been studying in the Aichi Steel Technical Training Institute. As people's career choices have diversified, our Technical Training Institute will meet the expectations of young people who will support the Company's future, nurturing within them a challenging spirit for manufacturing.

## Education for coaching

The tutor system was restarted in fiscal 2007, aiming at handing over know-how and providing professional and personal advice from senior employees to young employees. In fiscal 2008, an educational program for senior employees who coach young employees was started to promote mutual brainstorming and sharing of information. By sharing information on conditions and environments across different workplaces, the coaching skills of senior employees will be enhanced.

# Environmental Efforts



## We strive for $CO_2$ reduction by the innovative reforming of manufacturing processes and are making many other efforts in various fields to achieve our Environmental Vision 2015.

Shinji Mukai, Director

## Promoting $CO_2$ reduction by rectifying the production process

Production of specialty steel consumes huge amounts of energy in the process of melting iron scrap,and shaping into round bars or forgings. This is the most important issue in rationalizing the production process to achieve $CO_2$ reduction. The Company has made companywide energy-saving efforts, including changing its fuel from heavy oil to LNG, using energy-saving burners with high combustion efficiency and scheduled renewal of facilities. Through these efforts, it is expected that the internal $CO_2$ reduction target set by the Company and the target set by the steel industry for fiscal 2010 will be mostly achieved by the Company.
Thus, we have established a new higher target to achieve a "20% $CO_2$ emission reduction by 2015 compared with the level in 1990." To achieve this target, a Global Warming Prevention Committee has been established within the Company to discuss and determine specific methods for $CO_2$ reduction. A 20% $CO_2$ reduction requires improvement of specific energy consumption (energy consumption rate per output) by about 40%. To achieve this goal, we are working on innovative reform of the production process, focusing on the keywords "4S" (Simple, Slim, Short and Straight). The slogan conveys the idea that all processes from material input to the shaping of steels and forgings should be coordinated to prevent any unnecessary energy consumption. By realizing a smooth process flow (rectifying), the energy efficiency of the production line with be improved. As an exemplary project, the construction of a new high-efficiency continuous casting line that synchronizes its start and end times with the previous and subsequent processes has been planned, and we are preparing to begin operations in 2011.

## Collaboration with business partners in efforts to reduce environmental burden

Engagement (collaboration) with business partners is necessary to effectively reduce the environmental burden of our business activities. Accordingly, the Company promotes environmental burden reducing activities in collaboration with "Hokokai," an association of major suppliers of the Company, through briefing sessions on our procurement policy, the Value Analysis (VA) and Proposal System, and the New Green Purchasing Guideline revised in 2008.

One example is our Seki Plant, a new plant for producing "MAGFINE" for automobile use, scheduled to begin production in 2010. In addition to the energy-saving designs incorporated in the production line and the plant structure, we selected constructors who are able to use construction techniques emitting less $CO_2$.

In the area of steel transportation, we collaborate with our logistics subsidiary to improve the efficiency of product delivery by using relay depots and promoting the modal shift from truck to ship.

Efforts to reduce $CO_2$ emissions have also been made in the forging delivery process. We strive to increase the cargo loading rate per truck. In addition, we ask our customers to allow mixed loading or leveling of the number of deliveries to reduce energy consumption as part of our efforts to reduce our environmental burden.

### $CO_2$ reducing design incorporated in continuous casting machine No.3

Bloom (large section) continuous casting machine No. 3 will be constructed as a part of our large-size facility investments. In designing the facility, we will strive to reduce $CO_2$ emissions significantly through direct connection, direct hand-over and rectification of the production processes and improvement of the yield rate.

This represents the start of efforts to achieve the $CO_2$ emissions reduction target for fiscal 2015.

### Together with suppliers

The $CO_2$ emissions reduction target for 2015 would be difficult to achieve by the sole effort of the Company. Accordingly, the Aichi Steel Group has created a New Green Purchasing Guideline in order to strengthen coordination among business offices and relevant suppliers. Following this Guideline, we will strive to grow into a more environment-conscious enterprise.

### Environmental consideration at the Seki Plant

The Seki Plant, which will produce electromagnetic products, is now under construction. Environmental considerations are also given for the construction of this plant.

The structure of the building is designed to enable environment-friendly operations. Moreover, in close cooperation with the constructor, efforts not to generate waste nor impose burdens on the natural environment during construction work are made. We have chosen ecological construction techniques for the construction of the plant.

CSR Management

# CSR Policy

## We practice CSR management to gain trust from stakeholders.

We believe that we can retain our status as a trusted company by practicing our mission statement and improving our corporate value. To this end, we have set CSR principles and continue practice these principles.

## Establishment of Medium-Term CSR Plan 2010

Based on the results of the CSR activities conducted under our three-year plan since 2005 and evaluation of those results, we have established a new Medium-Term CSR Plan (Medium-Term CSR Plan 2010) covering the three years from fiscal 2008.
The plan was deliberated on and approved at the meeting of the CSR Working Group in February 2008 (held twice a year and chaired by President; members include all directors, standing corporate auditors). This plan will be reviewed and modified as needed in accordance with the progress of activities.

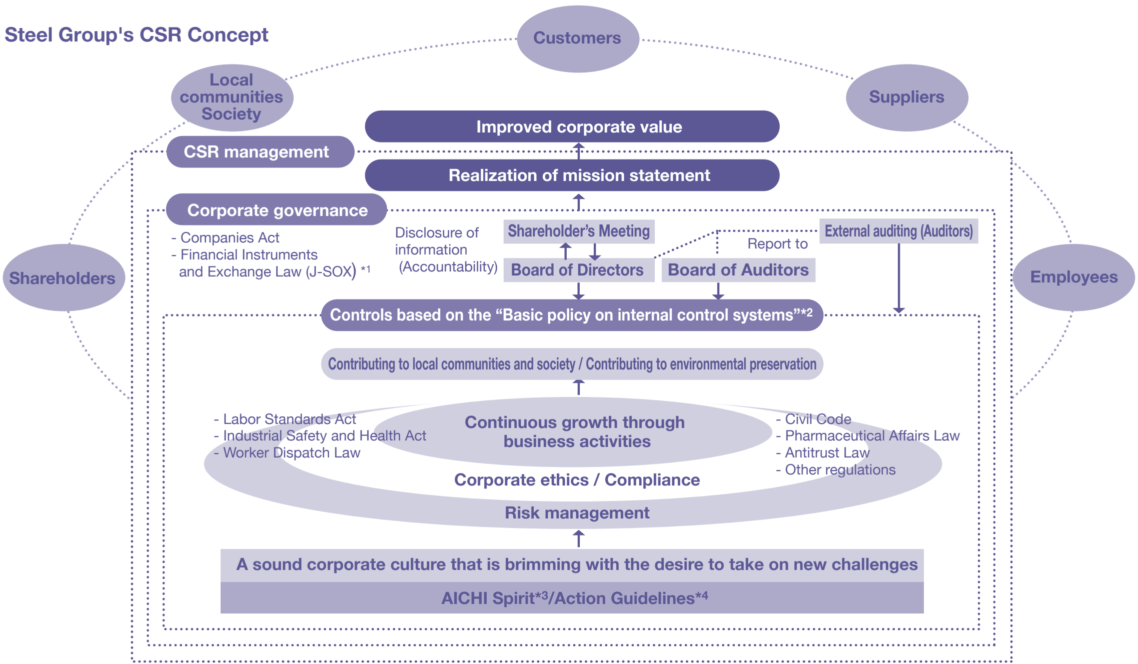
## Designation of CSR Enhancement Month

To disseminate and enhance CSR consciousness among employees, we set October each year as the Aichi Steel Group CSR Enhancement Month. During this month, greater emphasis is placed on CSR activities throughout the Aichi Steel Group.
In fiscal 2008, workshops were held at all sites to promote employees' understanding of our CSR activities, using Aichi Steel Report 2008 as a textbook. A community cleaning program "Extended Clean Aichi Day" was also implemented in which employees from the entire Aichi Steel Group participated.

## CSR survey

In November 2008, to find the status of the compliance system and other related matters, a CSR survey was conducted among subsidiaries in Japan and to major suppliers. We asked these companies to self-assess their compliance and security control systems and their operating statuses.
Results of this survey are being analyzed and will be utilized to promote CSR activities throughout the supply chain of the Company.

**Aichi Steel Group's CSR Concept**




*1 J-SOX: The Japanese version of the U.S. SOX (Sarbanes-Oxley Act). This Act was created using the SOX as a model and designed to improve the accounting auditing system and internal control of companies in Japan.
*2 Internal control: Activities and systems to control, monitor and secure the soundness and efficiency of operations, as part of corporate governance, by following standards and procedures established for individual operations.
In particular, standards and systems to prevent improper financial accounting should be established, and auditing should be conducted to verify that they are operated properly.
*3 AICHI Spirit: A slogan presenting, in an easy-to-understand manner, the management philosophy, sense of value and other basic ideas upheld by Aichi Steel as its corporate "genes" inherited from predecessors (established in July 2006).
*4 Aichi Steel Group Action Guidelines: Practical guidelines that must be followed during daily business activities (revised in January 2007)

For details, please refer to our Website. http://www.aichi-steel.co.jp/ENGLISH/com_info/index.html (Aichi Steel Group Action Guidelines)

## Medium-Term CSR Plan Priority Issues and Major Activities in Fiscal 2008

○: Target or significant result achieved
△: Target not achieved or poor activity result
×: Serious problem or improvement suggested

| Category | Priority items | Major activities in fiscal 2008 | Assessment | Future plan |
|---|---|---|---|---|
| Ⅰ Activity management | 1 Diffusion of and strict adherence to CSR Policy | Created CSR Enhancement Month | ○ | Improvement of the activity contents during CSR Enhancement Month |
| | | CSR assessment by subsidiaries in Japan | | Improvement in assessment basis |
| Ⅱ CSR activities | 2 Development and provision of eco-friendly products and technologies | Eco-friendly production processes and weight reduction of automobile parts | △ | Response to change in automobile mechanism |
| | 3 Innovation for environment-conscious manufacturing | Reengineering was promoted in the core business.<br>* Plan was revised in response to the deterioration of the business environment during the year. | △ | Conduct activities linked with Project Z100 (cost reduction project) |
| | 4 Community activities resulting in environmental and social contribution | Participants increased. Employees' CSR consciousness was enhanced. | ○ | Increase participants by planning new activities |
| | 5 Activities to preserve local and global environments | $CO_2$ reduction target 672,000 tons/year → Actual Results: 544,000 tons/year (decrease) | △ | Since the production volume was reduced, the reduction effort should be changed from reduction of gross volume to reduction per product unit. |
| | | Quantity of land-filled waste Target: 2% of the 1990 level → Actual Result: 56% of the 1990 level (setback compared with the previous year) | | Promote new technological development |
| | 6 Strengthening of internal control system in accordance with the Financial Instruments and Exchange Law (J-SOX) | No serious defect was found. | ○ | Respond to social demand |
| | 7 Prevention of serious risks | Compliance training program was provided to officers and leaders. | △ | Reassurance of compliance to all employees |
| | | Service contracts were reviewed. | | |
| Ⅲ Respecting employees and corporate cultural reform | 8 Balancing work and personal life | Employee awareness was enhanced regarding the importance of time efficiency | ○ | Promote the "Halve-the-Time" project more aggressively |
| | | "Halve-the-Time Campaign" was planned and carried out. | | |
| | 9 Creation of vital and open workplace | Foundation for communication was created, including the "Iki Iki Aichi" team activities. | ○ | Additional programs |
| | 10 Creation of safe and comfortable workplace environment | Accidents resulted in work time loss:<br>No accidents in the Company, 2 accidents in the General Safety and Health Council | △ | Promote activities in the Aichi Steel Group and associated companies |
| | | In the physical distribution project, the roadway and the walkway were improved. | | |

CSR Management

# Corporate Governance

## We aim at efficient and transparent corporate governance.

We strive to establish a sound corporate governance system that ensures monitoring and auditing of business operations, and such a system should be reviewed continuously from the strict viewpoint of management control.

## Compliance with the Financial Instruments and Exchange Act

In response to the enactment of the Act, the Company and its consolidated subsidiaries have strengthened their control environment and proceeded with documentation of relevant procedures. Accordingly, the Company was able to complete the first year of the enactment with no "critical defects."

## Validation of the basic policy for the internal control system

In May 2006, the Board of Directors established the Basic Policy for the Internal Control System. The Policy has been revised in April every year since, and the status of the operation of the system is reported to the Board of Directors. In fiscal 2008, the Policy was reviewed in the light of the Act, and the notification received from the Tokyo Stock Exchange ("Policy for Acting Against Antisocial Forces")*. Since all requirements stipulated in the law and the notification are already stated in the current Policy, no revision was made to the Policy in this review.

* Notification regarding a partial revision of the securities listing rules in response to the establishment of a listing system designed to eliminate antisocial forces and other listing systems (February 2008).

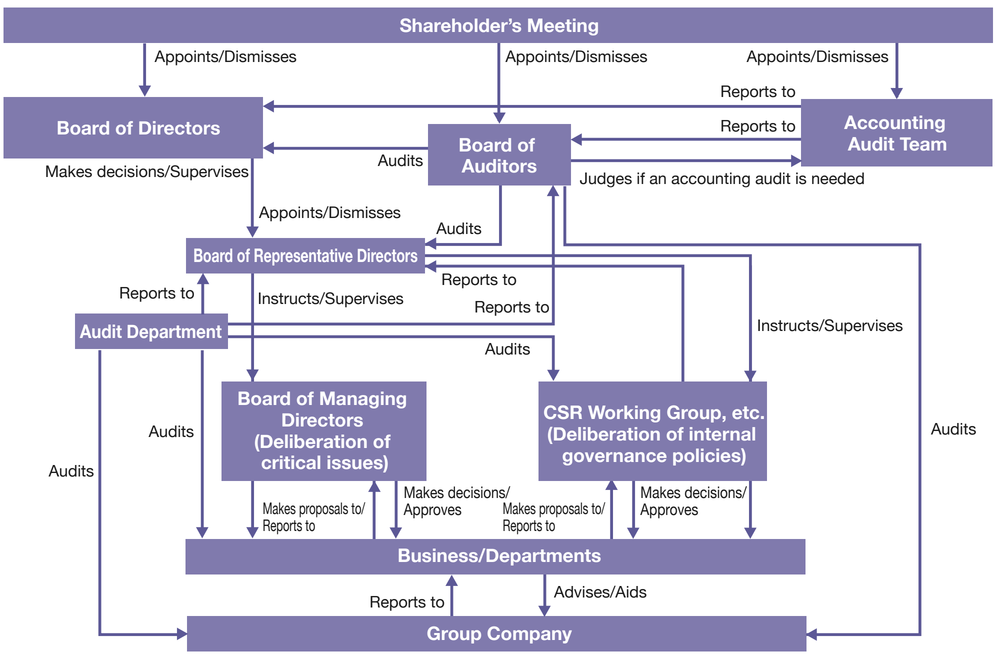
## Meetings of the Board of Directors and the Council of Corporate Auditors

The regular meeting of the Board of Directors is held every month, and a special meeting is called as needed. Important decisions are made and the operating status of the Company is reported at the Board meeting.

**Attendance rates in fiscal 2008**

| | Meetings | Director attendance rate | Corporate auditor attendance rate | |
|---|---|---|---|---|
| | | | Standing corporate auditors | Outside corporate auditors |
| Board of Directors | 15 meetings | 96% | 100% | 52% |
| Board of Auditors | 12 meetings | – | 100% | 96% |

**Our corporate governance system**



# Compliance

## Creating corporate culture through individuals’ awareness and communication.

An open and fair enterprise can be realized only when corporate ethics are rooted deeply in employees’ awareness. We always strive to improve employees’ compliance consciousness in order to create an open workplace atmosphere.

## Compliance education program

To enhance the compliance consciousness of employees, we provide educational programs during the training sessions of each job level of employees to promote understanding of the Aichi Steel Group Action Guidelines and present incident reports. Seminars by outside lecturers are also provided to acquire up-to-date information.

In fiscal 2008, following educational programs and seminars were provided:

Training sessions for each job ladder: eight times

Seminars: Twice

– Seminar for Aichi Steel Group officers (July)

– Seminar for leaders (February)

## Action Guidebook was created for directors and officers, and distributed.

In July 2008, the Action Guidebook for Executives was created, aimed at promoting compliance throughout the Aichi Steel Group. The Guidebook was distributed to directors, corporate auditors, and all officers of the Company and Group companies.

## Use of the “Hotto” Line

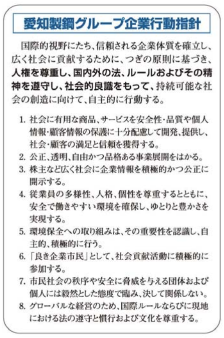
Aichi Steel “Hotto” Line is a hotline system to encourage internal reporting of improper actions. During fiscal 2008, the “Hotto” Line received five internal reports. Reported facts were investigated and measures to correct the improper actions were taken. A notice was distributed throughout the Company to prevent recurrence of the same or similar improper actions.

### Calls to “Hotto” Line

| Year | Fiscal 2004 | Fiscal 2005 | Fiscal 2006 | Fiscal 2007 | Fiscal 2008 |
|---|---|---|---|---|---|
| No. of calls | 5 | 2 | 11 | 5 | 5 |

## Distribution of CSR Card

During the Aichi Steel Group CSR Enhancement Month, a pocketbook of CSR Card was distributed to all employees of the Company and directors of Group companies. The pocketbook contains “Mission statement,” “AICHI Spirit,” “Aichi Steel Group Action Guidelines” and “Aichi Steel Group CSR Policy”.



**愛知製鋼グループ企業行動指針**

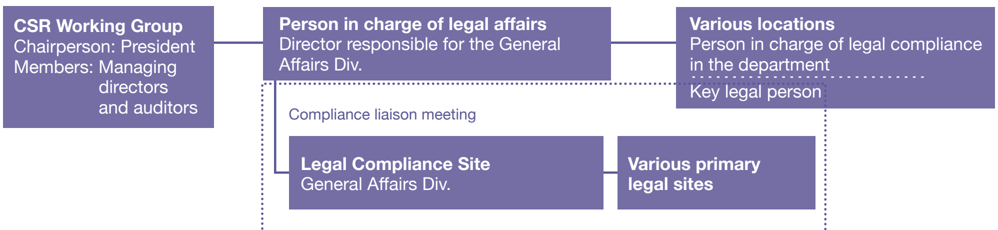
国際的視野にたち、信頼される企業体質を確立し、広く社会に貢献するために、つぎの原則に基づき、**人権を尊重し、国内外の法、ルールおよびその精神を遵守し、社会的良識をもって、**持続可能な社会の創造に向けて、自主的に行動する。

1. 社会に有用な商品、サービスを安全性・品質や個人情報・顧客情報の保護に十分配慮して開発、提供し、社会・顧客の満足と信頼を獲得する。
2. 公正、透明、自由かつ品格ある事業展開をはかる。
3. 株主など広く社会に企業情報を積極的かつ公正に開示する。
4. 従業員の多様性、人格、個性を尊重するとともに、安全で働きやすい環境を確保し、ゆとりと豊かさを実現する。
5. 環境保全への取り組みは、その重要性を認識し、自主的、積極的に行う。
6. 「良き企業市民」として、社会貢献活動に積極的に参加する。
7. 市民社会の秩序や安全に脅威を与える団体および個人には毅然とした態度で臨み、決して関係しない。
8. グローバルな経営のため、国際ルールならびに現地における法の遵守と慣行および文化を尊重する。

## Respect for employees' human rights

In the Aichi Steel Group, we respect the human rights of each employee. This principle is clearly stated in our Office Regulations (Service Disciplines), the Aichi Steel Group Action Guidelines and other regulations. In fiscal 2008, company newsletters and bulletin boards in the cafeterias were utilized to present human rights information and to remind employees of the counseling service provided via the “Sexual/Power Harassment Hotline” (provided by the Human Resources Department). In fiscal 2008, the Hotline received no counseling calls.

### Compliance Promotion System




Business Update
CSR Activities Highlight 2008
CSR Management
Compliance
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Environmental Section
Financial Section

## CSR Management

# Risk Management

**We make all-out efforts to develop a complete risk management system to avoid risks that would affect our businesses.**

We identify all foreseeable risks for the Aichi Steel Group in all aspects and implement strict risk management to minimize the adverse effect of risks on stakeholders.

## Organization and System

At the meeting of the CSR Committee in September 2008, the progress of the risk management of serious risks for the entire Company and for individual divisions and departments was reported. In addition, in order to cope with changes in the business environment, additional foreseeable risks were assessed and existing risks were re-assessed. The decisions made at this meeting were communicated to all departmental managers, who will be responsible for managing those risks.

## Risk management training

In April 2008, a risk management seminar was hosted by the Aichi Steel Engineering Society. Some 156 officers and employees of the Company and officers of affiliated companies participated in the seminar to learn the estimated damage caused by the predicted Tokai/Tonankai Earthquake, as well as actions to take in the event of an earthquake.

We invited Professor Nobuo Fukuwa from the Graduate School of Environmental Studies, Nagoya University, as speaker. He lectured on the latest earthquake studies, their results and the predicted damage caused by the earthquake using earthquake simulation. Taking Professor Fukuwa's advice, we have distributed "rescue whistles" to all employees as an emergency preparation for earthquakes (September 2008).

## Adoption of the Emergency Earthquake Alert system to prepare for large earthquakes

In November 2008, the Company adopted a system linked with the Emergency Earthquake Alert released by the Japan Metrological Agency. This system detects an earthquake and gives an alert to factories and office buildings before large tremors reach the area. It is expected to minimize the damage caused by an earthquake. When the system operation started, companywide emergency drills were also conducted. Drills for evacuation, fire extinguishing at an early stage, and communication were performed.

## Labor compliance activities

To ensure labor compliance of the Aichi Steel Group in the area of labor management and labor service contracts, the Labor Compliance Committee was formed (July 2008) by managers engaged in labor management (section managers of the Company and Group companies). Labor-related information is shared by members and labor compliance workshops are carried out by the Committee. In fiscal 2008, three meetings of the Committee were held to exchange information and promote communication among members.

## Prevention of product risks

We strengthened the product tests conducted at the times of purchase and production to ensure that no residual radiation be included in the procured scrap iron or produced specialty steels. These tests satisfy the requirements recently stipulated in Europe and other regions.

# Information Security

## Nowadays, information is a valuable asset. We are striving for proper information management.

As information has become a valuable and sophisticated asset for an enterprise, proper information management is indispensable. We adopt proper measures and management systems to protect customer information and other information.

## Organization and System

### Management system and roles of each department

**Overall control**
Director in charge of general affairs
- Person responsible for confidentiality management

**Administrative departments**
The General Affairs Div. and the Coporate Planning Div.
- Creates and revises measures related to the management of confidential information
- Audits and provides guidance according to the confidentiality management status across the entire company
- Manages systems (both technical and human aspects)

| In each department | Role |
| --- | --- |
| Person in charge of confidentiality management (General managers of individual divisions) | - Total responsibility for confidential information within the division<br>- Designates people in charge of confidentiality management<br>- Has the final say in confidentiality classification<br>- Designates employees authorized to create top-secret documents<br>- Implements voluntary auditing of confidentiality management status<br>- Establishes rules for the division |
| Person in charge of confidentiality management (Manager or supervisor named by the division general manager) | - Acts under the authority of the person responsible for confidentiality (Designates confidentiality classifications and sets the operating rules within the division)<br>- Works to promote and fully establish confidentiality in the division |
| Representative managers, GMs, etc. | - Follows laws, regulations, and company rules related to confidentiality management<br>- Gives approval, instruction, and guidance related to confidential information used in their location. |
| Department employees | - Follows laws, regulations, and company rules related to confidentiality management<br>- Reports accidents, damage, illegal acts, and wrongdoing to his/her superior |

## Information Security Control Enhancement Month

We have set May and October each year as "Information Security Control Enhancement Months." In the Enhancement Months in 2008, intensive educational activities to enhance employee's awareness of security control were conducted, as well as monitoring and checking to identify improper actions and occurrences that may lead to information leaks outside the Company.

**- Educational activities**

"Clear Desk, Clear Screen" Campaign: Employees were reminded to keep their office desk organized and not to leave documents and materials on the desk. A security system was introduced to computers designed to initiate a password-protected screensaver when no operations are performed on the computer for a designated length of time.

Information-leak prevention education: Information leak cases actually experienced by other companies were presented. Participants were asked to check if similar risks exist at their workplace and if they are aware of the seriousness of the risks.

**- Monitoring and checking**

Baggage inspection: Employees' bags and personal belongings are inspected after work at the site gate to prevent improper carrying of electronic storage media or documents containing important information out of the Company.

Mail inspection: Mail transmissions to receivers outside the Company were checked to confirm whether there was any risk of leaking confidential or other important information. The results of the inspection and instructions were fed back to employees within the Company for future precaution.

## Confidentiality agreements

The standard forms of the confidentiality agreement to be entered into with suppliers or joint researchers were reviewed and new templates were created. All terms and conditions necessary for the Company are included in the templates to secure confidentiality and to avoid unfavorable conditions for the Company.

## Protection of personal information

Aichi Steel Personal Information Protection Policy (established in April 2005)

For details, please refer to our Website.

**http://www.aichi-steel.co.jp/ENGLISH/p_pol.html**

We experienced no incidents of personal information leak in fiscal 2008.

## Clarification of information disclosure procedures

In May 2008, the "Rules for Information Disclosure" were established to clarify, based on the procedures conventionally followed, the procedures to be followed when important information is disclosed. Through this clarification of procedures, a system to disclose correct information timely without omission was established.

### Information Disclosure Review Committee

**Chairperson: Information manager (Officer in charge of General Affairs Division)**

**Administrative office: General Affairs Division**

**Members: Managers of functions, including the head office, technical, marketing and production functions, appointed by the Chairperson; managers of departments from which the disclosed information originates; and related departments**

Social Relations Section

# Quality and Customer Satisfaction (CS)

**We listen to the voices of customers and strive to enhance our quality assurance system.**

In accordance with our basic policy of "Quality First" and "Customers First," we perform thorough assessment and analysis of our product quality. We promote the development and operation of a quality assurance system composed of "Jikotei-Kanketsu" (built-in quality with ownership)

## Quality Management System

**Basic Quality Policy**

In accordance with our policy of "Quality First," we strive to develop a business structure trusted by customers on the basis of our ISO9001 certification. Under our Medium-Term Global Quality Plan 2010, with the objective of delivering attractive products that meet customers' expectations and needs, we will establish a quality assurance system with a competitive edge in human resources, facilities and service.

## Reinforcement of quality management system

We place emphasis on the development of employees competent in quality management. In accordance with our Medium-Term Quality Plan, we provide an education program on quality knowledge, quality-related losses and complaint handling. This program is provided for each job ladder of our employees. In fiscal 2008, a total of seven sessions were provided to graduates newly employed in April and existing employees promoted to higher positions.

## Enhancement of customer satisfaction

In May 2008, the Sales Administration Division and the Quality Assurance Division jointly conducted a survey to gather our major customers' opinions and evaluations regarding the quality of our specialty steel, forgings and stainless steel products. Based on the analysis of the opinions and evaluations collected from our customers, we determined which quality issues required improvement. Analysis of the evaluations and incorporation of the analysis into the Management Review is also conducted in the regular follow-up meetings (once every three months) and reported to the ISO Review Committee annually in March. We will continue these activities to ensure and improve customer satisfaction.

## Re-verification of the appropriateness of the data management system

At the request of the Japan Iron and Steel Federation, we formed a Quality Control Working Group ("Quality WG") in August 2008. The Quality WG examined our inspection certificates ("mill sheets") to verify that the data entered in the mill sheets were correct. It was examined whether there were any risks or actual cases of falsification of data related to specialty steel or stainless steel produced by the Company. As a result of the examination, it was confirmed and reported that no such cases or risks were found in the examined mill sheets. The WG is held quarterly to ensure continuous improvement of the quality control system.

## Current ISO9001 status and future plans

Consolidated subsidiaries in Japan and overseas have striven to acquire ISO (ISO9001) quality certifications. Moreover, to address the recent globalization of the automobile industry, we are now working to switchover to ISO/TS16949, a quality management system standard for the automobile industry.

SAFC and AIT have already changed from ISO9001 and acquired ISO/TS16949 certification.

### ISO certification acquisition

| | | |
|---|---|---|
| Kariya Plant | ISO9001 | April 1993 |
| Chita Plant | ISO9001 | December 1995 |
| Forging Plant | ISO9001 | November 1997 |
| Electromagnetic products | ISO9001 | March 1998 |
| Dental materials | ISO13485 | July 1999 |
| Dental materials | EC Directive | July 1999 |
| Technical Development Division | ISO17025 | September 2007 |

### Consolidated subsidiaries

| | | |
|---|---|---|
| Omi Mining | ISO9001 | May 2002 |
| Aiko Corp. | ISO9001 | April 2005 |
| Asdex | ISO9001 | June 2008 |
| AFU | ISO9001 | November 1997 (Expected to acquire ISO/TS16949) |
| AFC | ISO9001 | April 2003 |
| SAFC | ISO/TS16949 | August 2006 |
| AIT | ISO/TS16949 | March 2008 |
| AFI | ISO9001 | November 2008 |
| AMC | ISO/TS16949 | Expected to acquire |

ISO/TS16949 is a quality management system standard for automobile businesses. Certificates are issued to sites satisfying the global procurement standards specified for automobile parts.

## Third-party labeling

Products of Aichi Steel are affixed with the JIS mark, marks issued by shipping classification societies and TÜV (Technischer Uberwachungsverein, or the Technical Inspection Association in Germany), and other third party labels, all of which confirm that the quality of our products satisfies their standards.

Social Relations Section

# Information Disclosure and Communication

## Knowing is understanding. Good relationships have enhanced stakeholders' confidence in the Company.

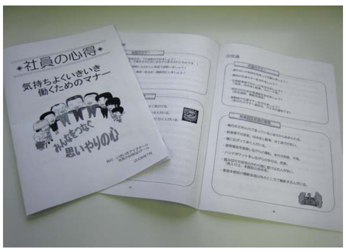
We offer various opportunities to promote communication among employees and with citizens in the community. Communication with shareholders and investors is also promoted through disclosure of Company information and other activities.

## CSR dialogues

In December 2008, seven Toyota Group companies located in Kariya, Aichi Prefecture held the Eighth Kariya Area Community Meeting, in which Aichi Steel also participated. We have received words of appreciation from participants for our community activities, which have seen steady progress. We also received the request to extend more cooperation in supporting the growth of the community as a whole.
In March 2009, we invited leaders from town associations in the neighborhood to our CSR Community Meeting. After presenting a report of Aichi Steel's CSR activities, participants visited our plant to observe the actual status of our activities.

## For better workplace communication

In 2008, aiming at improving our workplace atmosphere and reforming our corporate culture, we distributed to employees materials of workplace etiquette and rules that should be actively practiced and followed by employees. These materials were created by teams led by selected young employees. They "clearly visualized" workplace manners that had previously been only vaguely defined. The "Employee Manner Book GD team," assigned the duty of improving workplace etiquette, issued the "Employee Manner Book" (July 2008), and the "Mail Guideline Team" issued "Using E-Mail for Better Communication" (September 2008). These materials are used in programs intended to reform workplace culture as well as during new employee orientation to promote the creation of a "lively and pleasant workplace" for every employee.



## Communication events

Individual plants and workers unions of the Company also held community events to promote communication among employees and between the Company and the community. These events were excellent opportunities to promote communication with local citizens. In addition, revenues from charity bazaars were donated to charity organizations.

Plants and Event Months
- Chita Plant (June)
- Kariya Plant (July)
- Forging Plant (July)
- Workers union (October)

## Plant tours

During fiscal 2008, many visitors from within Japan and overseas toured our plants to personally witness Aichi Steel's dedication to manufacturing. In February 2009, six students from Heisyu Public Junior High School (Tokai) visited our plant as part of their student job experience program (in accordance with the classroom subject of "Working," junior high school students created their own plans and visited companies of their own initiative).

**Tours [Note: These are just few of all tour groups in the list.]**

| |
|---|
| JICA welding technique learning group (May) |
| Trainee group from Bursa, Turkey (Jul.) |
| Facility maintenance demonstration trainee group from Meijo University (Aug.) |
| Nagoya Koyo Senior High School (Aug.) |
| Plant tour by Toyota Group employee families (seven Toyota Group companies in Kariya Area) "Let's Visit a Manufacturing Site" tour (Nov.) |
| Plant tour by families of Chita Plant employees (May and Nov.) |
| Tour by group from Chubu Branch, Society of Automotive Engineering of Japan (Feb.) |
| The fourth basic manufacturing technique training group from JICA (Feb.) |

## Trade shows and briefings

In fiscal 2008, Aichi Steel has hosted or participated in the following events to promote the businesses and report the operational statuses of Aichi Steel:

**Events targeted at customers and the general public**

| |
|---|
| Automotive Engineering Exposition 2009 (May, Yokohama) |
| 17th Hokokai VA Exhibition (May, Aichi Steel head office) |
| Messe Nagoya 2008 (Sept., Nagoya) |
| Kariya Industrial Trade Show, Tokai Industrial Trade Show (Nov.) |
| Agribusiness Creation Fair 2008 in Tokai (Oct. and Nov.) |

**Events intended to shareholders and investors**

| |
|---|
| Annual financial results briefing (Apr., Tokyo) |
| Press release of quarterly financial results (Apr., Jul., Oct. and Jan.; Nagoya and Tokyo) |
| Nagoya Stock Exchange IR Exposition 2008 (Jul., Nagoya) |
| 11th Nomura Asset Management Fair (Dec., Tokyo) |
| Tokai Three Prefectures Nomura Asset Management Fair (Sept., Nagoya) |

Social Relations Section

# Employee Satisfaction

## Enjoy personal life AND enjoy work
## We provide pleasant environments for both employees' personal and business lives.

We hope all employees in the Aichi Steel Group can enjoy their lives by maintaining a good balance between their personal lives and business careers. We strive to create a pleasant workplace environment and an environment for human development so that employees can lead meaningful lives.

## Support for Work-Life Balance (WLB)

The Ministry of Health, Labor and Welfare established the month of November each year as "Work-Life Balance Creation Month". In response to this national campaign, the Company has created, through collaboration between the Company and the workers' union, a "Vacation for Work-Life Balance" System, aimed at reducing total actual working hours and increasing the usage rate of paid vacations. In accordance with this System, the Company encourages employees to plan and take a paid vacation of two or more consecutive days at least once every six months. Improvement in the usage rate of paid vacations will be monitored and followed up by the Company in collaboration with the labor union.

### Ongoing WLB programs

| |
|---|
| Time Management Training (Jul., Sept., Dec. and Feb.;<br>Target employees: Subsection chiefs and employees in lower position levels) |
| Happy Life Seminar<br>(Jun., attended by 71 employees and their spouses) |
| "Money Plan for Employees in Their 40s" Seminar<br>(Nov., attended by 21 employees and their family members) |

## Employee Human Rights Education

Human rights education was included in the training provided to promoted employees in January 2009, as an additional course curriculum to provide basic knowledge on human rights issues. Education on elimination of discrimination, prohibition of unauthorized acquisition, and disclosure of personal information, and other human rights issues was provided, with a view to creating a pleasant work environment where employees respect colleagues' human rights.

## Promotion of the Women's QC Team activities

A Women's Conference was formed and has carried out activities to reflect female workers' opinions into efforts to create a pleasant workplace for all employees. In fiscal 2008, an initiative was started to transform these activities by the Women's Conference into QC Team activities that would help improve actual business operations. We have been making preparations to organize the members of the Women's Society into QC teams. In fiscal 2008, one of these teams (Electro-magnetic Production Division, Chita Production Department) presented the results of their activities at a QC conference. We plan to strengthen this initiative to further expand the scope of these activities.

## Reinforcement of labor management

We developed a labor management (employee attendance management) system. Employees' entry and exit data of Company premises, collected and controlled by the IC Employee ID Card system designed for security control, is also used by this labor management system. The management system is helpful in developing an improvement plan to level off working hours among employees. The application of this system to administrative employees was completed first. In October 2008, the system was applied to technical employees, and currently all employees is managed by this system.

## Revision of the "Senior Expert Employee" System

To enhance the motivation of leaders, the Senior Expert Employee System was revised in January 2009. The roles of leaders were clarified, and career path alternatives from 55 years old to the retirement age were strictly defined. The "Meister" system, applicable to technical section chiefs, has continued to ensure the succession of technical skills to younger employees. The Senior Expert System for re-employment after the retirement age is continued as in the past.

## Senior Employee Re-Challenge System (revision of the "Refresh" Vacation)

Currently, employees who retire at the official retirement age can use the "Refresh" Vacation System (which entitles them to take a paid vacation for five consecutive days) before they are re-employed as contract employees. The aim of this system extension is to give employees a rest period to refresh their minds and bodies at the time of age-based retirement before they restart their careers, using their experience and expertise in coaching younger employees and in new assignments.

### Registrants to the "Nice Senior" System

| | Fiscal 2004 | Fiscal 2005 | Fiscal 2006 | Fiscal 2007 | Fiscal 2008 |
|---|---|---|---|---|---|
| Nice Seniors (persons) | 10 | 15 | 25 | 50 | 69 |

The figures above are the number of registrants in the "Nice Senior" System as of the end of each fiscal year.

## Using "School Trainee Karte" for human development

The "School Trainee Karte" system was introduced to assess the work aptitude of technical trainees who study technical skills at the Aichi Steel Technical Training Institute for one year before being assigned to specific sites, and to promote their quick settlement after assignment. All data on an individual trainee is recorded in the "Karte" (Card), including school performance records and assessment of their compatibility with the sites they are temporarily assigned to during on-the-job training (provided in September and January). Based on the information contained in the Karte, trainees are assigned to supervisors and workplaces, under whom and in which they can fully demonstrate their abilities.

## Actions to prevent child labor and forced labor in foreign subsidiaries

To understand employee turnover rates and labor management statuses in overseas Group companies, we have conducted an "Investigation of Labor-related Indicator Management." We will confirm whether each company investigated has complied with the relevant local laws and regulations. If any labor-related noncompliance is found as a result of this investigation, we will take necessary measures to correct said noncompliance.

## Labor Data

### Labor Composition

| | Fiscal 2004 | Fiscal 2005 | Fiscal 2006 | Fiscal 2007 | Fiscal 2008 |
|---|---|---|---|---|---|
| Total workers (persons) | 2,359 | 2,340 | 2,327 | 2,328 | 2,331 |
| Managers (persons) | 227 | 238 | 241 | 247 | 253 |
| Male (persons) | 2,258 | 2,245 | 2,233 | 2,224 | 2,227 |
| Female (persons) | 101 | 95 | 94 | 104 | 104 |
| Average age (years) | 39.2 | 39.2 | 39.2 | 39.3 | 39.4 |
| Average service (years) | 19.7 | 19.6 | 19.7 | 19.3 | 19.8 |
| Turnover rate (%) | 0.8 | 0.5 | 0.4 | 0.8 | 0.8 |
| Voluntary resignation for personal reason (persons) | 17 | 13 | 10 | 18 | 17 |

### Users of the Nice Family System

| | Fiscal 2004 | Fiscal 2005 | Fiscal 2006 | Fiscal 2007 | Fiscal 2008 |
|---|---|---|---|---|---|
| Child care leave (persons) | 4 | 6 | 9 | 8 | 8 |
| Shorter work hours (persons) | 5 | 1 | 7 | 13 | 7 |

The figures in the above table are the number of employees who used the system during the single year (not accumulated numbers).

### Employment of persons with disabilities

| | Fiscal 2004 | Fiscal 2005 | Fiscal 2006 | Fiscal 2007 | Fiscal 2008 |
|---|---|---|---|---|---|
| Employees with disabilities (persons) | 22 | 26 | 31 | 30 | 29 |
| Employment rate (%) | 1.2 | 1.3 | 1.6 | 1.6 | 1.5 |

**Column**

### Concerted efforts of the management and the workers union to overcome the crisis

To discuss solutions to overcome the difficulty of the steep decline in production volume caused by the world economic downturn, the management and the workers union have held frequent emergency meetings since December 2008. It was determined through such discussions that the management and workers union should cooperate with each other and make concerted efforts in order to retain the employment level and strengthen the financial structure of the Company.

Social Relations Section

# Safety and Health

## We promote the creation of safe and hygienic workplaces and provide support to maintain the mental and physical health of employees.

Betterment of work environments directly leads to improvement in the quality of manufacturing. At Aichi Steel, we provide safety education and training to employees to ensure safe facility operation and safe job performance. We also place emphasis on employee health management.

## Basic Labor Safety and Health Policy

1. "Safety is the Starting Point of an Operation." In accordance with this principle, each workplace should, under the leadership of the manager, fulfill the basic responsibility of ensuring the safety and hygiene of the workplace and the health of employees.
2. Dialogue should be promoted to fully convey the "Basics of Safety and Health" to employees and to create a lively workplace atmosphere.
3. We will promote the mental and physical health of employees and provide support for their pursuit of healthy and happy lives.
4. We will create a culture of safety to achieve "zero occupational accidents."

## Small group activities

In addition to measures and improvements implemented in the area of cleaning and organizing to eliminate dangerous conditions in the workplace, we have made serious efforts in risk prediction training and operation training using operation procedure manuals. The purpose of these training programs is to develop "employees having a strong sense of safety," who diligently practice safety procedures and avoid dangerous behaviors.

In fiscal 2008, we set benchmarks*2 to comprehensively evaluate the safety statuses of workplaces. Based on the evaluations, we will identify the weak points of each small group and take necessary measures to overcome the problems.

## 1S for safety and health activities

To maintain a safe workplace environment, the "5S's" (Seiri, Seiton, Seisou, Seiketsu, and Shitsuke, meaning organization, tidiness, cleanliness, hygiene and discipline) are important. In particular, "1S," (Seisou) is the most basic practice we should actively promote. The first step in our safety and health activities is to practice 1S in our daily operations.

## Results of safety efforts during fiscal 2008 and future efforts

We analyzed the causes, patterns, and number of years of experience of the employees involved, for all occupational accidents occurring from fiscal 2005 to 2007. We also analyzed the details of major serious accidents and trends in the results generated by our major safety activities. As a result of these analyses, it became clear that our human development efforts were incomplete.

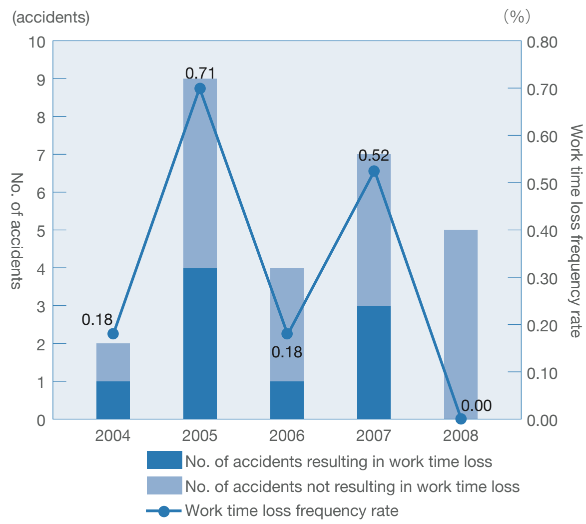
In fiscal 2008, to "develop employees having a strong sense of safety," we organized employees into small groups for safety activities so that the group leaders could provide thorough safety education and close supervision to group members. As a result of these small group activities, safety problems in the workplace were identified, the workplace has become cleaner and tidier, and other improvement measures have been taken.

In the future, these small group activities will be continued and also be introduced to associated business operators within the plant site for comprehensive safety and health management. Emphasis will be placed on the "development of employees having a strong sense of safety," "improvement of the workplace environment," and "risk assessment*1" in order to firmly instill the "safety culture."

## Improvement of workplace environment

Since safe and healthy workplace environments are essential for all employees in Aichi Steel, we have implemented safety activities both in plants and administrative offices. In plants, experts who have good knowledge of the Industrial Safety and Health Act identified dangerous areas in the workplace, and we have made improvements in those areas accordingly. In fiscal 2008, we placed greater emphasis on safety activities in administrative departments. Unsafe conditions in administrative offices were identified, and improvement efforts were made in accordance with specific improvement subjects. As a result, administrative employees' awareness of safety has been enhanced.

**Frequency of accidents and work time loss**



## Risk assessment

Risk assessment has been used in our safety activities since 1999. Analysis of risk assessment has been reflected into measures to prevent serious accidents and injuries, and prevent accidents in non-stop processes. Risks arising from operations and other work-related movements have been eliminated or mitigated based on the risk assessment. However, our efforts were not comprehensive and assessment of risks arising from facilities, materials and dust has been insufficient. Accordingly in fiscal 2008, we developed procedures to assess risks arising from facilities, materials and dust. In the future, we will develop a comprehensive and effective risk assessment system using these procedures.

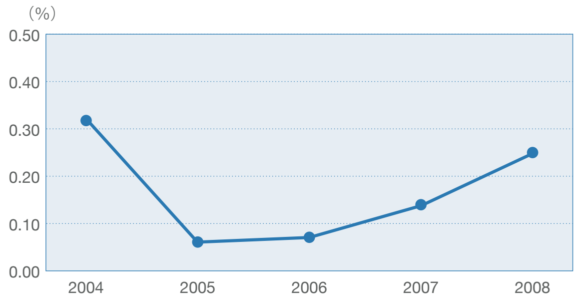
## Actions against the new influenza

In fiscal 2008, we have created an "Infection Control Manual" to prepare for and take proper actions against an outbreak of a new influenza feared to become pandemic*3. The Manual was originally intended for bird flu, but could be applied to the new influenza virus that spread in April 2009. (The Infection Control Manual was distributed to all employees in May 2009.)

## Promotion of employees' health management

We have strengthened our health programs to promote employees' awareness of the importance of mental health and to support distressed employees. We strive to help distressed employees at an early stage using the health check sheet filled out by employees during the regular Company health examinations, casual health counseling and other programs.

**Rate of work time loss resulting from mental health problems**




## Column

### Emergency action against the outbreak of a new influenza in the United States

In April 2009, the press announced the outbreak of a new influenza in the United States. In response to these press reports, we have called an emergency meeting of relevant departments in Japan (the Corporate Planning Division, the Overseas Business Division, the Safety and Environmental Division, the General Affairs Division, the Human Resources Division and other relevant divisions) to discuss and determine the provision of support to AFU.

Infection control masks were quickly sent from Japan by air and distributed to employees in Group companies in the U.S.A.

No cases of infected employees have been reported so far. However, to prepare for future spread of the virus, we have started storing "preventive goods."

*1. Risk assessment: A technique to assess risks scientifically, systematically, logically and comprehensively to prevent accidents
*2. Benchmarks: Reference points for comparing achievement levels
*3. Pandemic: Quick and global spread of a high-risk infection

Social Relations Section

# Social Contribution

## We participate in social contribution activities in accordance with our principles of mutual support and mutual growth of the Company and the community.

We encourage all employees of the Company, as individuals living in the same era and the same environment, and equally hoping for bright future, to participate in activities to contribute to the well-being of the community. The Company also strives to make various efforts for the mutual growth of its business and the community.

## Policy

Setting the four keywords of "Clean," "Green," "Creative" and "Volunteer" as our focuses for social contribution activities, we promote community-oriented social activities.

## Extended Clean Aichi Day

As part of our group-wide efforts during CSR Enhancement Month, employees from the Aichi Steel Group participated in community cleaning campaigns in their neighborhood (October 2008).
A total of 511 employees participated in the Extended Clean Aichi Day event from the Head Office, Chita, Kariya, Forging, Higashiura, Gifu, Tokyo, Osaka, Hiroshima and Fukuoka blocs. Consolidated subsidiaries also carried out their own neighborhood cleaning events.


## National Tree-Planting Ceremony

In June 2008, the 59th National Tree-Planting Ceremony was held in the "Hokuo-no-Mori Park" in Akita Prefecture (co-hosted by the Akita Prefecture Government and the National Land Afforestation Promotion Organization), graced with the presence of the Emperor and Empress. The Company donated its plant growth activator "TetsuRiki-Agri" to this tree-planting event. We will continue to participate in this forestation promoting event.

## Tokai Eco-School

In August 2008, as part of the "Tokai Eco-School" program provided by the Tokai City Government, elementary school children and their families totaling 49 participants visited the Company. Participants seemed to be interested in our presentation of our product "TetsuRiki-Agri." The power of iron-ion in the product promotes photosynthesis so that vegetation growth is activated. As a result, more $CO_2$ is absorbed by vegetation, helping to prevent global warming.

* An event intended to enhance citizens' sensitivity and environmental consciousness, in accordance with the idea of a "joyful," "experience-based" and "discovering" event.

## Donations to support people stricken by the Sichuan Great Earthquake

In May 2008, Sichuan Province in China was stricken by a great earthquake. Hoping to support the lives of people stricken by the Sichuan Great Earthquake and recovery of the damaged area, the Company donated ¥2.2 million, together with donations of about RMB 50,000 (about ¥0.8 million) contributed by employees of the local subsidiary (SAFC) via a relevant organization.

## Supporting the "150th Anniversary of Modern Iron Manufacturing Practice" event hosted by the Japan Iron and Steel Federation

During fiscal 2008, the Japan Iron and Steel Federation conducted various social contribution activities, as part of their commemorative program to celebrate the 150th anniversary of the modern iron manufacturing practice in Japan.
As a member of the industry, the Company also provided cooperation to the "Kariya All Citizen Dance Festival" (September, hosted by the Kariya Tourist Association) and the "Tokai City Marathon" (December, hosted by the Tokai City Government). We provided participation prizes and gifts to these events.

人が活かす、人を生かす、鉄
STEEL FOR LIFE
150th
IRON&STEEL INDUSTRY

## Volunteer activities initiated by employees

Employees of the Company have taken the initiative in volunteer activities.
Some of the activities were:
- Support for the autumn festival held in a special nursing home


- Music performance by an employee band in a celebration party

## Collaboration with the local government and NPOs

- Tree cutting for forestation improvement in Kiso Village, Nagano Prefecture [Green Challenger, NPO] (September)
- Tokai Forestation for the 21st Century Campaign (February)

- Provision of gift goods to the EXPO Eco Money Center in Nagoya (March)

## Activities of the Aichi Steel Volunteer Fund

The Aichi Steel Volunteer Fund is a program to donate money contributed by employees and other related parties. The Fund donated charity gifts worth of about ¥3.9 million (including a matching contribution by the Company) to the following organizations:

### Organizations and Charity Gifts

| Organization | Charity gifts |
|---|---|
| Chubu Guide Dog Association (Nagoya) | AED and supplies (for visitors) |
| "Akatsuki Gakuen" Children Foster Home (Tokai) | Washing machine and vacuum cleaner |
| Chita Social Welfare Organization "Nagomi-En" Day Center (Chita) | Handloom (for wheelchair user) |
| Chita Welfare Organization "Yamamomo Workshop for the Handicapped" (Chita) | Digital camera and printer for creation of procedure manuals |
| NPO "Yui-no-kai" (Chita) | Gas kitchen stoves and gas water heater for commercial use |
| "Satsuki" Social Welfare Organization (Tokai) | Manual capper (operational tool) |
| "Kusunoki" Workshop for the Handicapped (Higashiura) | Wagons for conveying products |
| Chubu Branch, the Japan Blind Tennis Association (Nagoya) | Tennis balls for blind tennis |
| NPO "Kizuna" (Higashiura) | Bathing aid for caretaker |
| NPO "Fureai" (Tokai) | Financial support for purchase of pick-up car for day service users |
| "Oumei" four performance groups in the Tokai Youth Center | Projector (for stage performance) |
| NPO "Machi Net Minna-no-Hiroba" (Tokai) | Office equipment |
| NPO "Daikon-no-Hana" (Chita) | Special chairs designed for the elderly |
| Tokai Social Welfare Council (Toy Library) | Children's play equipment |
| Tokai Social Welfare Council (Disaster Relief Volunteer Center) | Easy-to-install tents |
| Disaster Prevention Safety Division, Tokai City Office | Emergency supplies |

### Organizations supported by employee volunteers and charity gifts

| Organization | Charity gifts |
|---|---|
| Chita Junior Basketball Club | Basketballs and other supplies |
| Boy Scout Tokai First Group | Training materials |
| Toyohashi Blind Tennis School | Tennis balls for blind tennis |
| "Chiju-kai" Judo Club | Sports digital timers |
| Tokai Junior Basketball Club | Team uniforms for competition |
| Track Team, Tokai Athletic Association | Mini hurdles |
| Volunteer Group "Mizutamari" | Stage for picture-card show |

### Ongoing volunteer activities

| |
|---|
| Support for blind tennis tournament |
| Nishi-Chita Industrial Road Clean-up Campaigns (Jun., Aug., Oct., Dec., Jan. and Feb.) |
| Blood donation (Sept. and Feb.) |
| Invitation of local citizens to the Grampus soccer game spectator tour (Aug.) |
| Support for the Tokai City Marathon (Dec.) |
| Support for the Tokai Junior High School Indoor Tennis Tournament |
| Safety sentry on the Traffic Accident Zero Day |

# Environmental Activity Policy

## From Plan 2010 to Plan 2015.... We have begun a new plan for another challenge.

Since the business environment has changed drastically in the second half of fiscal 2008, our efforts toward natural environment protection have also changed. In circumstances where our production volume has declined, in addition to reducing the environmental burden by an absolute value (total volume), we will place emphasis on $CO_2$ emission control by each project, by facility or production unit.

## Setting a new $CO_2$ reduction target

In addition to the target of reducing the total $CO_2$ emission volume by 10% in 2010 (compared with the 1990 level), we have started development of a future plan to reduce $CO_2$ by 20% by 2015. As a result of our efforts so far, the 2010 target is expected to be achieved. Thus, we are determined to pursue a higher target. We may face some difficulties. However, we will strive to overcome these difficulties in order to achieve the new target.

## Aichi Steel Environmental Charter (established in June 1996)

**Mission**

Aichi Steel is committed to environmental preservation in all phases of its business operations based on the recognition that preserving the global environment is essential for the survival of mankind, as well as for the sustainable development of business.

**Basic Policy**

All divisions will cooperate to voluntarily establish action plans, clarify objectives, and work to continuously improve their environmental protection activities.

1. All divisions will work together to keep our environmental management system up-to-date, and implement environmental protection activities.
2. We will strictly conform to environmental regulations and implement voluntary management and auditing to improve the level of environmental management in all of our business activities.
3. We will take environmental protection into account from the planning, development, and design stages of our products and facilities.
4. We will work to conserve resources and energy, increase recycling, and reduce industrial waste in all of our business activities.
5. We will contribute to society and to local communities by supporting environmental protection and participating in cooperative activities.
6. We will raise awareness of environmental protection in all of our employees through educational and publicity-related activities.
7. We will contribute to environmental preservation by publicly releasing information on policies related to our environmental efforts and on technologies and methods we develop.

## Compliance with environmental laws and related regulations

In fiscal 2008, some of the action targets we have set in our Environmental Action Plan 2010 were not achieved, and some results were worse than the previous year's level. Some issues for which we have achieved our target involve "environmental close calls" that may surface in the future. We also had to take makeshift measures for some issues to cover delays in our response to the revisions in related laws and regulations.

However, we are committed to continuing our sincere efforts to make improvements concerning these issues in order to fulfill our mission as a recycling-oriented enterprise.

○: Target achieved
△: Target achieved but improvement still incomplete
×: Target not achieved

### Environmental Action Plan: Results of efforts in fiscal 2008 and their evaluation

| Item | 2010 target | 2008 target | Major efforts | 2008 results | Assessment |
|---|---|---|---|---|---|
| Environmental Management | All consolidated manufacturing companies acquire ISO14001 certification. | Pass the surveillance audit. (Material non-conformance: None; Minor non-conformance: One incident/site or less) | **Spiraling enhancement of environmental activities** Implement internal audit, setting priority issues. Prepare for AFC and SAFC certification acquisition. | Passed the audit. Material non-conformance: None Minor non-conformance: One | ○ |
| | | Complaints from outside the Company (Problems pointed out, administrative guidance, and complaints: No incident/year) | **Promotion of environmental conservation** Make proactive efforts by anticipating the future movement of environment-related laws and regulations. Promote activities for compliance with environment-related laws.<br>- Implement strict management and actions to achieve a target of 80% of the limit values regulated by environment-related laws.<br>- Improve high-risk facilities.<br>- Practice "Environmental Close Call" activities. | No complaints Four incidents of "Environment Close Calls" | △ |
| Global warming prevention | Reduce $CO_2$ emission from manufacturing departments by 10% from 1990 level. | $CO_2$ emission : 672,000 tons/year | **Promotion of $CO_2$ emission reduction by energy-saving efforts** Stop unnecessary operations (of compressors, cooling water units, auxiliary machines, lighting on site, etc.) while lines are not running. Change to, or concentrate processes on, energy-efficient facilities and furnaces. Fuel change: Coal oil and heavy oil → City gas | 544,000 tons/year | ○ |
| | Reduce energy consumption per production unit at logistics department by an average of 1% from 2006 level. | Reduce energy consumption per production unit by 1% from previous year level. | **Promotion of $CO_2$ emission reduction by improving logistics efficiency** Promote modal shift, direct delivery and improvement of cargo loading rate. | Aggregated by about 7% * See Page 32. | × |
| Recycling | Total landfilling volume: 2% or less of 1990 level (1,160 tons/year or less) | Direct landfilling: 300 tons/year Indirect landfilling: 1,596 tons/year | **Company-wide efforts, focusing on activities to promote Zero Emission** **Compliance of fluorine-containing byproducts with the environment-related laws** | Direct: 29,433 tons Indirect: 4,019 tons * See Page 35. | × |
| Reduction of environmental burden | | Modeling of environmental burden LCA calculation (Simplified $CO_2$ conversion formula) | **Implementation of evaluation and calculation for four products (ring gear, mission gear and rear shaft)** | Modeling was completed. | ○ |
| | | Review green purchasing programs. | **Revision of the Green Purchasing Guideline and requesting suppliers' strict adherence to the guideline** Rank suppliers to enhance their environmental awareness. Add $CO_2$ reduction effects to the evaluation items. | Review was completed. | ○ |
| Social contribution | | Disclose environmental information to stakeholders. | **Publication of Aichi Steel Report** **CSR community meetings** | Timely disclosure | ○ |
| | | Implement environment conservation activities. | **Employee volunteers' participation in NPO tree cutting activity for forestation improvement** **Employee volunteers' participation in tree-planting ceremony of Tokai Forestation for the 21st Century Campaign** | Two events | ○ |

Environmental Section

# Environmental Management

## We have reinforced our environmental management system.

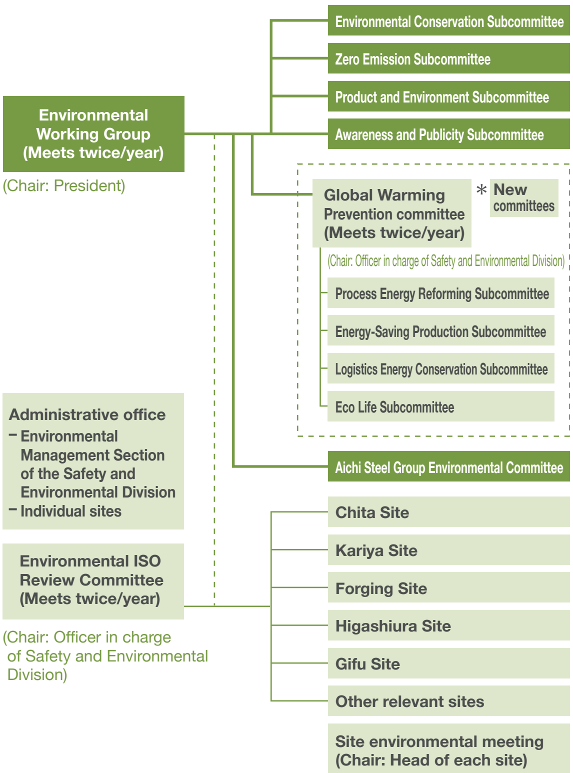
We have promoted $CO_2$ emission reduction activities in order to prevent global warning. The 10% reduction from the 1990 level is expected to be achieved. We have set a new higher target for 2015 to reduce our $CO_2$ emission volume by 20% from the 1990 level. To achieve this target, we have formed a Global Warming Prevention Committee.

## Formation of the Global Warming Prevention Subcommittee

Under the Environmental Working Group (Chair: President, Members: Members of subcommittees, meetings held twice/year), the Global Warming Prevention Subcommittee (Chair: Officer in charge of the Safety and Environmental Division, Members: Members of subcommittees, meeting held twice/year) was formed as an organization to promote global warming prevention activities (July 2008).

This subcommittee was formed to strengthen our environmental management ability in order to achieve the new $CO_2$ reduction target. The subcommittee is responsible for reviewing and implementing $CO_2$ reduction measures in facility design, and processes in production, logistics and office operations. The $CO_2$ reduction target for 2015 is hard to achieve solely by conventional energy-saving efforts. Accordingly, we will actively work on realizing "Eco Life" in concert with our efforts in Process Energy Reform.

### Environmental management promotion organizations




## Acquisition of Environmental ISO

In the Aichi Steel Group, all consolidated subsidiaries that operate production sites are required to acquire ISO14001 certification. Of twelve applicable subsidiaries, eight subsidiaries have already acquired the certification. The Company is providing support to the other four subsidiaries, including communication and cooperation via the video conference system and other arrangements, to enable them to acquire the certification by fiscal 2010.

### ISO certification acquisition

| | | | |
|---|---|---|---|
| Aichi Steel | ISO14001 | January | 1997 |
| **Consolidated subsidiaries** | | | |
| Aichi Ceratec | ISO14001 | March | 2003 |
| Aiko Corp. | ISO14001 | January | 2004 |
| Omi Mining | ISO14001 | October | 2004 |
| Aiko Service | ISO14001 | January | 2005 |
| Aichi Steel Logistics | ISO14001 | March | 2005 |
| Asdex | ISO14001 | May | 2007 |
| Aichi Techno Metal Fukaumi | ISO14001 | (Expected to acquire in 2010) | |
| AFU | ISO14001 | April | 2003 |
| AIT | ISO14001 | November | 2006 |
| SAFC | ISO14001 | (Expected to acquire in 2009) | |
| AFI | ISO14001 | (Expected to acquire in 2010) | |
| AFC | ISO14001 | (Expected to acquire in 2010) | |

## Practicing "Environmental Close Call" activities

During fiscal 2008, we received no complaints from outside the Company. However, there were four environment-related inquiries from neighboring companies and public administrative agencies. We regarded these four inquiries as "material environmental close calls" and worked to strengthen our daily inspections and take improvement measures. We will continue our "Environmental Close Call" activities within the Company to enhance employees' alertness to prevent environment-related accidents.

## Increasing participants in environmental training

Environmental activities are an important element of the business management and CSR activities of an enterprise. Recognizing this importance, we have placed emphasis on environmental training. Until fiscal 2008, environmental training programs have been provided to newly employed graduates assigned to administrative departments (in the first half of each year) and employees promoted to managerial positions of the section chief level. In fiscal 2008, the scope of the programs was expanded to include employees promoted to team leader positions, responsible for managing actual production operations at each site.

## Increasing internal environmental auditors

The Company and Japanese consolidated subsidiaries operating production sites appoint internal environmental auditors who support the efficient operation of the environmental management system of the Company. In fiscal 2008, 16 auditors were newly certified, bringing the total number of auditors in the Company to 163.

### Results of internal audits

| Classification | Fiscal 2004 | Fiscal 2005 | Fiscal 2006 | Fiscal 2007 | Fiscal 2008 |
|---|---|---|---|---|---|
| Material non-conformance (incidents) | 4 | 2 | 0 | 0 | 0 |
| Minor non-conformance (incidents/department) | 0.9 | 1 | 0.9 | 0.7 | 0.7 |

### Results of audits by independent auditors

| Classification | Fiscal 2004 | Fiscal 2005 | Fiscal 2006 | Fiscal 2007 | Fiscal 2008 |
|---|---|---|---|---|---|
| Minor non-conformance (incidents) | 1 | 1 | 1 | 1 | 1 |
| Opportunity for improvement and other observances (incidents/department) | 11 (0.7) | 18 (1.0) | 21 (0.5) | 12 (0.3) | 20 (1.0) |

## Revision of the Green Purchasing Guideline

In September 2008, the Green Purchasing Guideline was revised into the New Green Purchasing Guideline, aimed at encouraging suppliers to propose environment-conscious materials and enhancing their awareness of our $CO_2$ reduction efforts. A column to indicate $CO_2$ reduction effects was added to the Proposal form to promote the purchase of more eco-friendly materials from suppliers.

We strive to improve the management level of our purchasing, while maintaining the Q (quality), C (cost-effectiveness), D (timely delivery) and E (environment-friendliness) of our purchased materials. We will also implement evaluation of our suppliers' efforts to encourage better proposals from suppliers.

For details, please refer to our Website.

**http://www.aichi-steel.co.jp/ENGLISH/over_proc/data/green_guide.pdf**

### Environmental conservation costs

Unit: millions of yen

| Classification | Major efforts | Amount |
|---|---|---|
| 1 Environmental conservation costs necessary for controlling environmental burdens arising within our operational areas from production or service activities (operational area cost) | Power for dust collectors/repair costs for dust collectors, wastewater treatment costs, investment and maintenance of energy-saving facilities, costs of disposal and recycling of industrial waste and general waste discharged from business operations | 2,105 |
| 2 Costs necessary for controlling environmental burdens arising upstream or downstream of our operational areas in connection with production or service activities (Upstream/downstream cost) | Simplified packaging (reducing packing materials and reducing packing time) | 0 |
| 3 Environmental conservation costs arising from our administrative activities (Administrative costs) | Costs for employee environmental education, and costs necessary to acquire and maintain ISO certification<br>Labor costs and related costs of environmental action organizations | 371 |
| 4 Environmental conservation costs arising from our R&D activities (R&D costs) | Research costs for environmental conservation | 17 |
| 5 Environmental conservation costs arising from our social-relation activities (Social-relation costs) | Site greening and industrial road cleaning activities | 32 |

Total 2,525

Environmental Section

# Global Warming Prevention

## We pursue the new $CO_2$ emission reduction target.

Based on our past efforts and know-how on the $CO_2$ emission reduction, we will use the unified efforts of the entire Group to achieve the new target for 2015 in order to contribute to global warming prevention.

## Targets and results of fiscal 2008

Since the production volume has been significantly cut in fiscal 2008, the results of our environmental efforts far exceeded the annual targets.

| Item | 2008 target | 2008 results |
|---|---|---|
| $CO_2$ emissions | 672,000 tons/year | 544,000 tons/year |

## Concept of the "3-4-2 Strategy"

In addition to management of the total $CO_2$ emission volume, we promote $CO_2$ management by production unit that enables objective analysis of actual results regardless of fluctuations in the production volume. This concept has been named the "3-4-2 Strategy." These three figures convey the idea that if the production volume increases by 30% from the 1990 level, a 20% reduction in the total $CO_2$ emission volume can be achieved by reducing the $CO_2$ emission per production unit by 40%. It will be impossible to achieve the new target for 2015 only by continuing improvement of our existing energy-saving measures. We will work on the development of sophisticated production processes for drastic reform.

## Promotion of shift to alternative energies

The fuel used in the steel heat-treatment furnace (Furnace No. 64) was changed from coal oil to city gas. We promoted the use of alternative energies to replace petroleum. This also contributed to the $CO_2$ emission reduction. Compared with conventional fuels, $CO_2$ emissions were reduced by about 16%.

## Improving energy efficiency of logistics operations

In fiscal 2008, the total freightage of the Company reached about 130 million ton-kilometers.* $CO_2$ emissions from logistics activities decreased from the previous year, but the reduction rate per production unit deteriorated by about 7%. This was because the transportation distance had increased and the loading rate had dropped. In the future, we will make efforts to identify efficient transportation methods in order to improve the loading rate according to the volume of shipped products and to shorten the transportation distance.

* Ton-kilometers (freightage volume) = Shipped quantities (tons) x Transportation distance (kilometers)

## LCA Simplified $CO_2$ Measurement

We have established a model to quantify the Life Cycle Assessment (LCA) Simplified $CO_2$ Measurement by using the $CO_2$ coefficients determined by the Japan Iron and Steel Federation for each product. Modeling is implemented during the development or improvement process of a product to evaluate how much $CO_2$ can be reduced compared with in the case of conventional products. In fiscal 2008, it has become possible to measure and evaluate four major forgings using this model.

## Global warming prevention seminar

In July 2008, we invited Mr. Shigeki Kobayashi, a chief researcher from Toyota Central R&D Labs., Inc., as a speaker in our seminar "Global Warming and Future Energies." He spoke about an issue gaining great attention recently, "$CO_2$ reduction for Environmental Conservation."

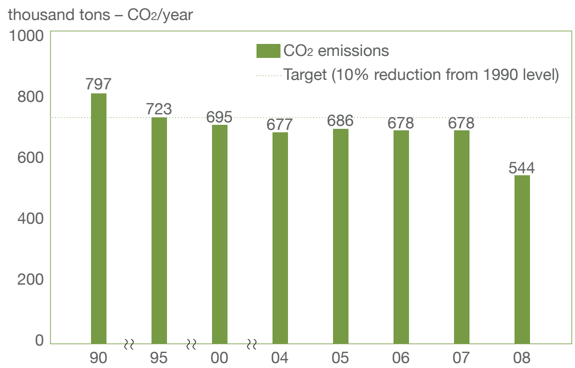
## From education to practice

We have continued environmental activities in the offices of administrative departments. In order to strengthen these efforts, we will promote activities to identify power consumption by individual administrative workplaces.

### Continuing energy-saving efforts in administrative offices

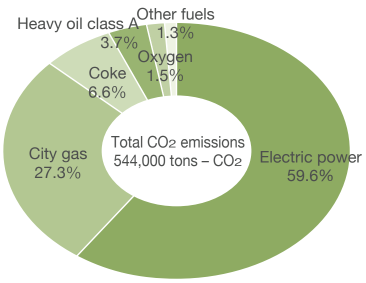
| |
|---|
| Cool Biz (June to September), and Warm Biz (December to February) |
| Reduction, sorting and recycling of waste |

## Change in $CO_2$ emissions




## Breakdown of energy consumption during fiscal 2008

### Breakdown of $CO_2$ missions during fiscal 2008




## $CO_2$ balance

| | |
|---|---|
| $CO_2$ emissions in fiscal 2007 | 678,000 tons – $CO_2$/year |
| $CO_2$ emissions in fiscal 2008 | 544,000 tons – $CO_2$/year |
| Change | 134,000 tons – $CO_2$/year |

### Breakdown

| | |
|---|---|
| Reduction due to decrease in production volume | 126,000 tons – $CO_2$/year |
| Improvements (A) – Aggravations (B) | 8,000 tons – $CO_2$/year |
| Total | 134,000 tons – $CO_2$/year |

### Improvements (A)

| | |
|---|---|
| (1) Change processes to high-efficiency facilities (new equipment, etc.) | 2,000 tons – $CO_2$/year |
| (2) Loss reduction by improving the facility operating rate | 2,000 tons – $CO_2$/year |
| (3) Improved energy efficiency of electronic furnaces | 1,000 tons – $CO_2$/year |
| (4) Saving of energy in rolling-heating furnaces | 3,000 tons – $CO_2$/year |
| (5) Loss reduction during suspension of operations | 2,000 tons – $CO_2$/year |
| Total | 10,000 tons – $CO_2$/year |

### Aggravations (B)

| | |
|---|---|
| (1) Changes in steel manufacturing process | 2,000 tons – $CO_2$/year |
| Total | 2,000 tons – $CO_2$/year |

## Column

### As part of the Team Minus 6% initiative promoted by the Ministry of Environment, we participated in the "$CO_2$ Reduction/Lights-Out Campaign."

We turned off the lighting of our corporate signboards on the nationwide simultaneous lights-out days (listed below). In addition, as an extended activity of this campaign, we decided to turn off the lighting of our signboards (Head Office, Technical School, Kariya Plant and Forging Plant) all day on Saturdays and Sundays. In fiscal 2008, we reduced $CO_2$ emissions by 385 kg through this initiative.

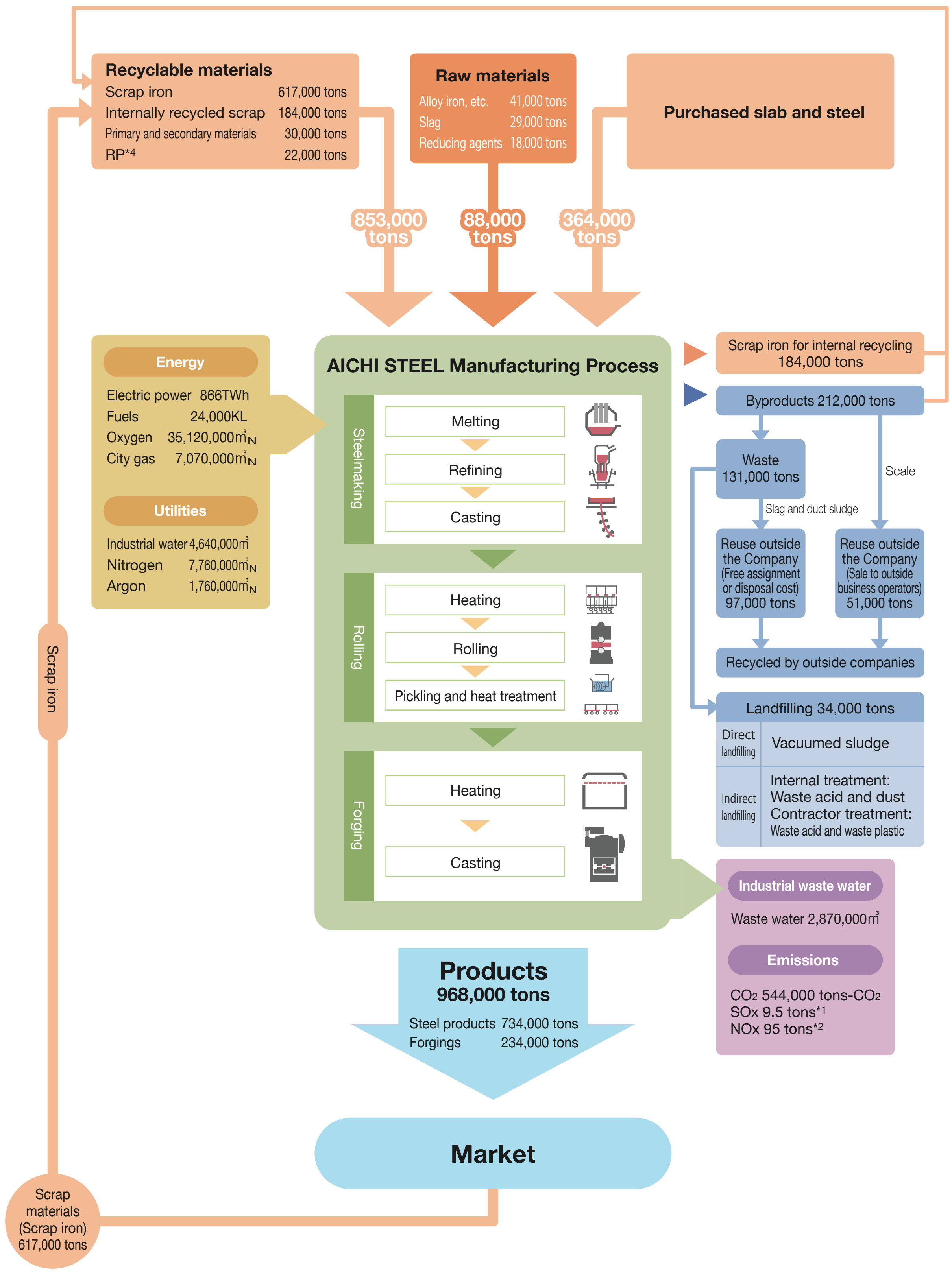
- June 21 "Black Illumination 2008"
- July 7 "Tanabata Lights-Out"

Environmental Section

# Environmental Material Flows

## Our environmental material flows in fiscal 2008 are illustrated below.

In our eco-conscious manufacturing activities, we strive for recycling and efficient use of resources. We make diligent efforts both in the market and in our manufacturing processes to promote complete recycling and waste reduction.




*1. Emissions during the period January to December 2008
*2. Emissions during the period April 2008 to March 2009

# By-products

## We will find solutions for complete environmental conservation.

Needs for environmental conservation have been rising globally. As a corporate citizen, the Company is expected to make environmental contribution to the global community.

## Targets and results of fiscal 2008

In fiscal 2008, the Company landfilled a volume of slag that would previously have been recycled, in order to comply with the Guideline for Proper Use of Recyclable Resources (published by Aichi Prefecture). As a result, the volume of direct landfill has significantly increased.

| Item | 2008 target | 2008 results |
|---|---|---|
| Direct landfilling | 300 tons/year | 29,433 tons/year |
| Indirect landfilling | 1,620 tons/year | 4,019 tons/year |

## Actions to comply with the intensifying environmental regulations

In addition to recycling and reuse efforts aimed at environmental contribution, the Company makes technical efforts to comply with environmental regulations. One example of such a technical effort is "slag," a byproduct generated during the steel refining process. Traditionally, we used fluorite (mainly composed of calcium fluoride) in order to improve the quality of our specialty steel. However, to comply with the intensifying environmental regulations, we have been working to develop technologies that use an alternative material or that do not require fluorite. We also place emphasis on analytical and controlling technologies to support compliance with environmental regulations.

## Collaboration in the industry in developing recycling technologies

Since the enactment of the Automobile Recycling Act, we have promoted the reuse of automobile shredder residue (ASR*3). Recycled plastics (RP*4) used in our manufacturing process are made by mixing ASR with iron materials.

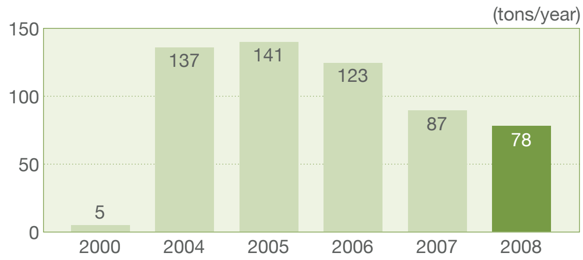
In fiscal 2008, about 8,400 tons/year (converted ASR) of recycled materials were used by the Company. Moreover, we promote collaboration with other companies in the industry to identify possibilities of other companies using our byproducts, and vice versa.

## Recycling technologies that have been used by the Company

- Production of abrasive (AS Shot)
- Recycling of electric arc furnace reducing slag, "ANRP method*5"
- Recycling of nickel from byproducts

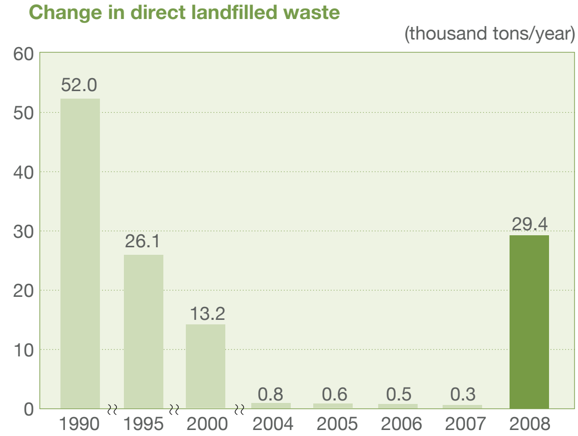
### Recycled nickel

We promote recycling of nickel-containing byproducts generated from our manufacturing process. However, the recycled quantity declined in fiscal 2008 due to a reduction of our production volume and a decrease in the quantities accepted.

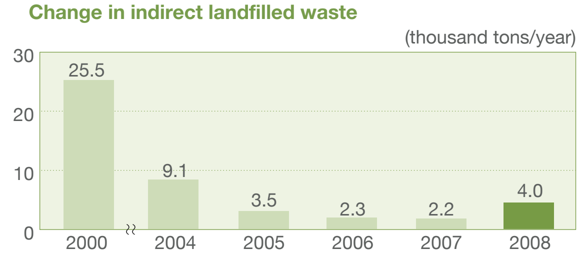



### Landfilled waste

**Change in direct landfilled waste**




**Change in indirect landfilled waste**




*3. ASR: Automobile Shredder Residue
(plastic, rubber and glass debris generated from shredding of scrap cars)
*4. RP: Recycled Plastics
*5. ANRP: Aichi New Hot Slag Recycling Process

Environmental Section

# Chemicals, Air and Water Quality Data (Fiscal 2008)

## Our strict management systems guarantee zero impact on natural environment as well as risk reduction.

We implement proper management and discharge control for chemicals, gases and wastewater discharged from our production sites. By taking improvement measures and operating strict control systems, we diligently strive for risk reduction.

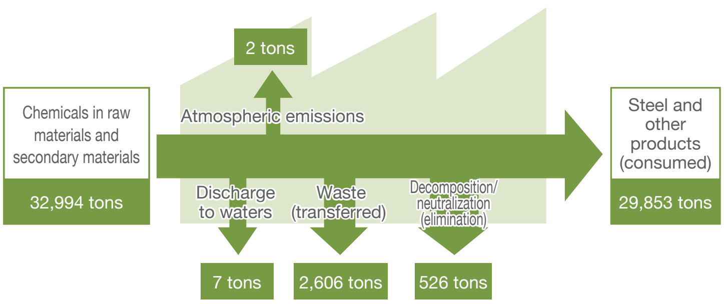
## PRTR Data

(Unit: tons)

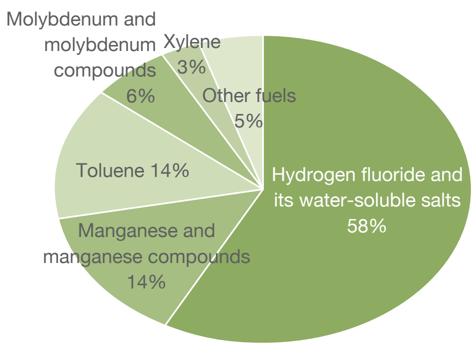
| | Chemical | Handled | Discharged | | Transferred |
|---|---|---|---|---|---|
| | | | Air | Water | Outside of premises (as waste, etc.) |
| Chita and Forging Plants | Ethyl benzene | 1.2 | 0.1 | - | - |
| | Xylene | 6 | 0.2 | - | - |
| | Chromium and trivalent chromium compounds | 15000 | 0.0 | 0.0 | 1300.0 |
| | Cobalt and cobalt compounds | 91 | - | 0.0 | 1.5 |
| | Dioxins | 54.00 | 54.00 | - | - |
| | Toluene | 8 | 1.1 | - | - |
| | Lead and lead compounds | 200 | 0.0 | 0.0 | 110.0 |
| | Nickel | 4100 | - | - | - |
| | Nickel compounds | 580 | 0.0 | 0.1 | 45.0 |
| | Hydrogen fluoride and its water-soluble salts | 6 | 0.0 | 4.1 | 0.6 |
| | Benzene | 0.7 | 0.0 | - | - |
| | Boron and boron compounds | 39 | - | 0.1 | 10.0 |
| | Manganese and manganese compounds | 6800 | 0.0 | 1.1 | 980.0 |
| | Molybdenum and molybdenum compounds | 4400 | - | 0.4 | 0.6 |
| Kariya Plant | Chromium and trivalent chromium compounds | 1000 | - | 0.0 | 33.0 |
| | Nickel compounds | 510 | - | 0.0 | 18.0 |
| | Hydrogen fluoride and its water-soluble salts | 130 | 0.0 | 0.6 | 100.0 |
| | Molybdenum and molybdenum compounds | 17 | - | 0.1 | 1.2 |

Higashiura and Gifu Plants: No chemicals requiring reporting were handled by these plants.
A hyphen ("-") indicates a quantity of "0" (zero). The volumes were calculated according to the PRTR system.

### Material balance of PRTR substances in the entire organization of the Company




### Breakdown of discharged PRTR substances



## Atmospheric quality data

**(regulated by the Air Pollution Control Act and the Prefectural Ordinance)**

### Chita and Forging Plants

| Substance | Facility | Limit | Actual level (max) |
|---|---|---|---|
| NOx | Boiler | 130 | 72.1 |
| | | 150 | 26.7 |
| | | 250 | 24.3 |
| | Heating furnace | 130 | 67.3 |
| | | 150 | 44.0 |
| | | 170 | 56.1 |
| | | 180 | 61.9 |
| | | 200 | 43.9 |
| Soot | Boiler | 0.05 | 0.014 |
| | | 0.10 | 0.002 |
| | | 0.30 | 0.001 |
| | Heating furnace | 0.08 | 0.003 |
| | | 0.10 | 0.003 |
| | | 0.20 | 0.002 |
| | | 0.25 | 0.002 |
| | | 0.30 | 0.006 |
| | Electric arc furnace | 0.05 | 0.001 |
| | | 0.08 | 0.001 |
| | | 0.10 | 0.002 |
| SOx | (Total limit) | 34.35 | 4.003 |

### Kariya Plant

| Substance | Facility | Limit | Actual level (max) |
|---|---|---|---|
| NOx | Boiler | 180 | 68.4 |
| | Heating furnace | 130 | 50.8 |
| | | 150 | 42.9 |
| | | 170 | 63.3 |
| | | 200 | 56.1 |
| Soot | Boiler | 0.30 | 0.002 |
| | Heating furnace | 0.20 | 0.003 |
| | | 0.25 | 0.003 |
| SOx | (Total limit) | 11.622 | 7.333 |

### Higashiura Plant: No regulated facilities were operated in this plant.

### Gifu Plant

| Substance | Facility | Limit | Actual level (max) |
|---|---|---|---|
| NOx | Boiler | 150 | 76.0 |

- The actual levels of NOx and soot indicate the maximum values actually measured for each regulated facility.
- Units are as follows: NOx (ppm); Soot (g/m$3_N$); SOx (m3/h) (Total limits set out in the Air Pollution Control Act)

## Water quality data

**(regulated by the Water Quality Pollution Control Act and the Prefectural Ordinance)**

### Chita and Forging Plants

| Item | Limit | Max. | Min. | Average |
|---|---|---|---|---|
| pH | 5~9 | 7.4 | 6.5 | 6.8 |
| COD | 25(20) | 10.4 | 3.0 | 5.6 |
| SS | 40(30) | 5.5 | Less than 0.1 | 2.7 |
| Nitrogen | 120(60) | 2.6 | 0.9 | 1.5 |
| Phosphorus | 16(8) | 0.1 | Less than 0.1 | 0.10 |

### Kariya Plant

| Item | Limit | Max. | Min. | Average |
|---|---|---|---|---|
| pH | 5.8~8.6 | 7.5 | 6.2 | 6.7 |
| BOD | 25(20) | 3.0 | 0.5 | 1.5 |
| SS | 40(30) | 20.5 | 0.5 | 6.8 |
| Nitrogen | 120(60) | 15.4 | 0.6 | 7.0 |
| Phosphorus | 16(8) | 1.3 | 0.2 | 0.62 |

### Higashiura Plant

| Item | Limit | Max. | Min. | Average |
|---|---|---|---|---|
| pH | 5.8~8.6 | 7.2 | 6.3 | 6.7 |
| BOD | 25(20) | 8.9 | 3.9 | 6.4 |
| SS | 40(30) | 7.5 | Less than 0.1 | 1.5 |
| Nitrogen | 120(60) | 6.8 | 2.2 | 3.5 |
| Phosphorus | 16(8) | 0.8 | 0.1 | 0.42 |

### Gifu Plant

| Item | Limit | Max. | Min. | Average |
|---|---|---|---|---|
| pH | 5.8~8.6 | 7.3 | 6.3 | 6.9 |
| BOD | 30(20) | 2.8 | 0.7 | 1.8 |
| SS | 60(50) | 6.0 | Less than 0.1 | 1.1 |
| Nitrogen | 120(60) | 9.7 | 1.3 | 3.9 |
| Phosphorus | 16(8) | 0.7 | Less than 0.1 | 0.13 |

- Unit: mg/liter (except for pH)
- These tables show only major regulated substances. However, the levels of other regulated substances not shown in these tables were all below the regulation limits or below the minimum measurable amounts (or not detected at all).
- Figures in parentheses ( ) are daily averages.

○ pH: Hydrogen-ion density
○ BOD: Biochemical oxygen demand
○ COD: Chemical oxygen demand
○ SS: Suspended solids in water

Financial Section

# Management's Discussion, Analysis of Financial Condition and Results of Operations

Any fractional sum of less than one million yen is disregarded.
A delta symbol in the table represents negative figures.
Sales by business segment represent sales to outside customers.

## Summary

Crude oil and raw material prices soared from the beginning of the current fiscal year. With the effects from financial turmoil in the United States and Europe spreading to the "Main Street" economy from last fall, and exports decreasing due to a sharp appreciation of the yen, the Japanese economy rapidly lost momentum, causing significant deterioration of corporate earnings.

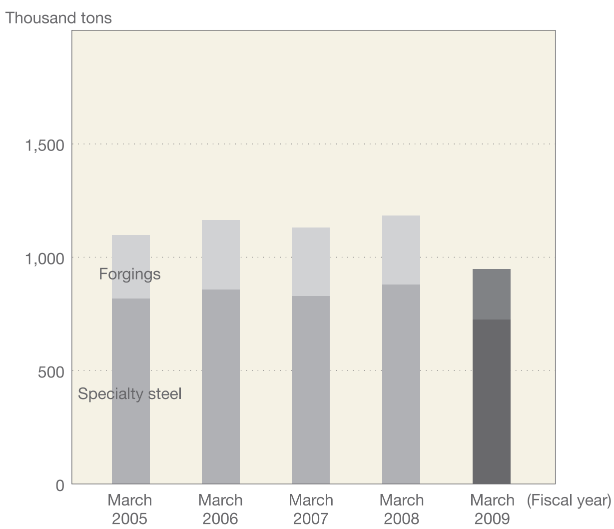
In the Aichi Steel Group, production of mainstay products, such as specialty steel and forgings, remained at a high level in the first half of the current fiscal year. However, sales volume decreased substantially in the second half of the current fiscal year, due to a sudden and large decline in demand from a wide variety of industries, including automobiles, along with a sharp contraction in the global economy. This forced the Group to implement an unprecedented drastic production cutback in the fourth quarter (January to March 2009). On the other hand, prices of scrap steel, a main raw material, declined sharply from August 2008 after rising to a level significantly higher than our estimate from the beginning of the current fiscal year.

In such a business environment, the Aichi Steel Group strove to improve productivity, raise product quality and shorten delivery times, with the aim of laying a foundation for strengthening power of "Monozukuri (manufacturing)," while making the most of capital expenditures. With the skyrocketing of such production costs as raw material and energy prices, the Group also tried to set and maintain reasonable sales prices that fairly represent product values and costs. At the same time, the Aichi Steel Group conducted company-wide emergency cost-cutting activities as a part of internal reform efforts.

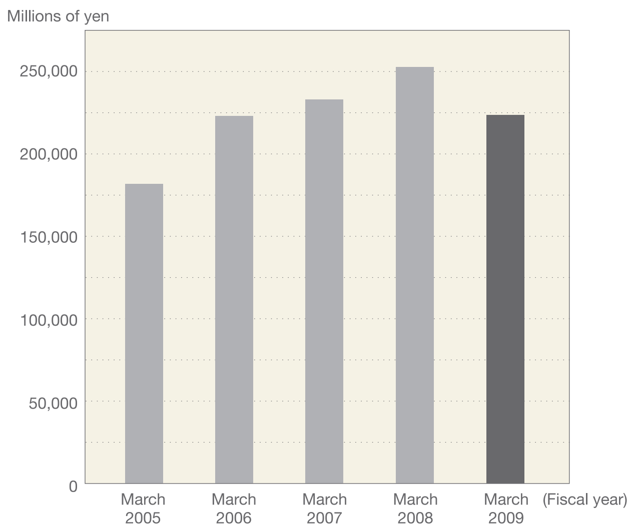
Net sales for the current fiscal year decreased by 12.4% from the previous fiscal year to 222,060 million yen (253,462 million yen in the previous fiscal year).

Although there were some improvements in sale prices and production costs, the Aichi Steel Group posted an operating loss of 483 million yen and an ordinary loss of 1,804 million yen for the current fiscal year (previous fiscal year operating income 10,884 million, ordinary income 9,332 million yen) due to an increase in raw material prices and a decline in sales volume. Considering business results for the current fiscal year and business prospects for the coming fiscal year, the Group reversed the entire amount of deferred tax asset and recorded deferred income taxes of 11,040 million yen at the end of March 2009. This led to a net loss of 14,105 million yen (net income of 5,693 million in the previous fiscal year).

**Sales volume (non-consolidated basis)**




**Net sales**



## Net Income or Net Loss

Net sales for the current fiscal year decreased by 12.4% from the previous fiscal year to 222,060 million yen. Cost of sales was 202,009 million yen, the cost-to-sales ratio rising to 91.0% (87.1% in the previous fiscal year). Selling, general and administrative expenses totaled 20,534 million yen, 9.2% of net sales (8.6% in the previous fiscal year).

Consequently, the Group posted operating loss of 483 million yen and net loss of 14,105 million yen for the current fiscal year. ROE was negative 12.7%.

## Sales by Business Segment

**Specialty steel**

Specialty steel is a mainstay product of the Aichi Steel Group. The segment's net sales decreased by 8.0% from the previous fiscal year to 129,006 million yen (140,282 million yen in the previous fiscal year) due to a decline in sales volume.

**Forgings**

Closed-die forgings for automobiles account for a major part of this segment. The segment's net sales decreased by 17.7% from the previous fiscal year to 85,896 million yen (104,324 million yen in the previous fiscal year) due to a decline in sales volume.

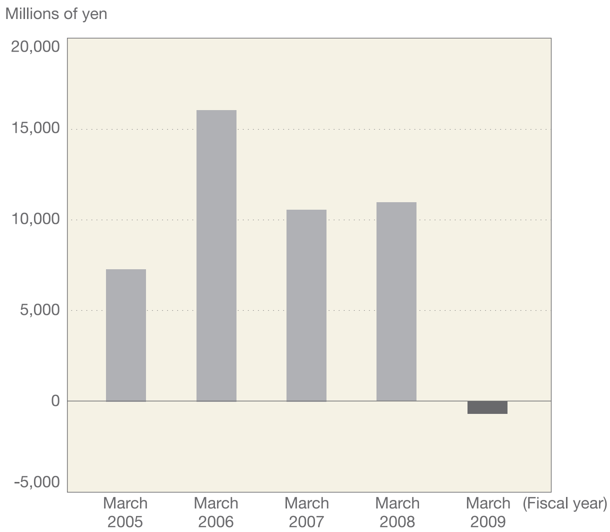
**Electromagnetic components**

The segment has made full use of the Company's one and only technology. Management has striven to turn the technology into the Company's core business in the future. The segment's net sales decreased by 23.5% from the previous fiscal year to 3,380 million yen (4,417 million yen in the previous fiscal year).

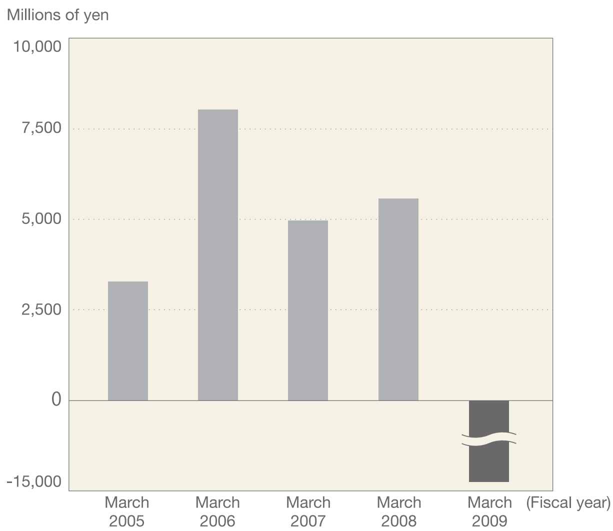
**Other businesses**

Consolidated subsidiary companies have been engaged in services and computer software development. The segment's net sales decreased by 14.9% from the previous fiscal year to 3,778 million yen (4,439 million yen in the previous fiscal year).

**Operating income or Operating loss (△)**




**Net income or Net loss (△)**



Financial Section

# Management's Discussion, Analysis of Financial Condition and Results of Operations

## Financial Position

Our Group's financial position as of the end of March 2009 is as follows.

Total assets decreased by 44,031 million yen from the previous year to 220,017 million yen. Current assets declined by 34,613 million yen to 103,540 million yen, mainly because a decline in sales led to a decrease in notes and account receivable-trade of 26,975 million yen.

Property, plant and equipment decreased by 4,296 million yen from the previous year. In the current fiscal year, a total of 14,467 million yen was invested. Depreciation and amortization totaled 14,794 million yen.

Current liabilities declined by 38,747 million yen from the previous year, mainly because a decline in procurement due to a drop in sales led to a decrease in notes and accounts payable-trade of 18,712 million yen and the current portion of long-term loans payable decreased by 15,331 million yen.

Non-current liabilities grew by 18,475 million yen from the previous year, mainly because long-term loans payable increased by14,160 million yen.

Net assets as the end of March 2009 declined by 23,759 million yen from the previous year to 104,396 million yen. Net assets per share stood at 508.16 yen (624.49 yen in the previous year). Capital adequacy ratio was 45.3% (46.4% in the previous year).

## Consolidated Cash Flows

Net cash provided by operating activities amounted to 26,320 million yen, mainly due to depreciation and amortization of 14,795 million yen, a decrease in notes and accounts receivable-trade of 25,814 million yen, and a decline in inventories of 5,197 million yen, despite net loss before income tax of 2,618 million yen and a decrease in notes and accounts payable-trade of 13,507 million yen.

Net cash used in investment activities was 15,849 million yen, mainly due to property, plant and equipment purchases of 15,952 million yen.

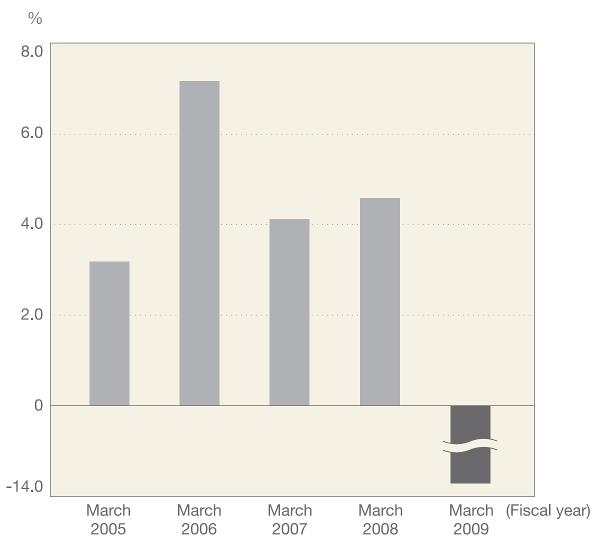
Net cash used in financing activities totaled 1,797 million yen, mainly due to cash dividends paid of 1,962 million yen.

Consequently, cash and cash equivalents as of the end of March 2009 amounted to 37,396 million yen, an increase of 6,904 million yen from the end of March 2008 (30,492 million yen).

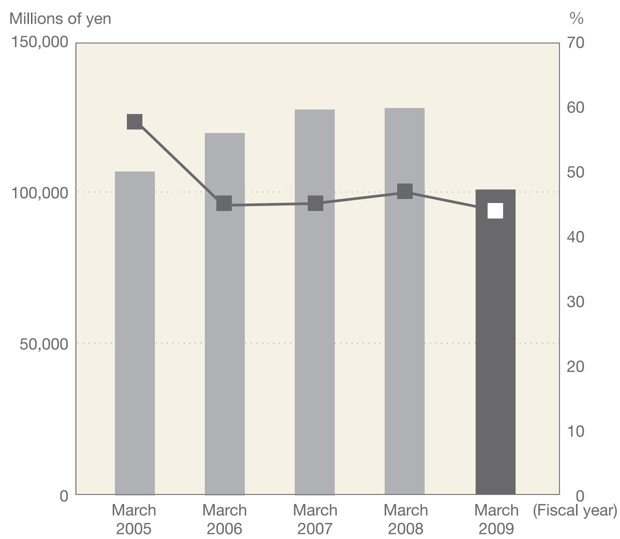
## Available-for-Sales Securities

Of the total available-for-sales securities owned by the Company and its consolidated subsidiaries, the historical costs of those reported on the consolidated balance sheet at fair market value amounted to 2,357 million yen (the fair market value of these securities was 7,084 million yen).

**ROE**




**Net assets, Capital adequacy ratio**



# Five –year Summary (Consolidated & Non-Consolidated)

### Five –year Summary (Consolidated)

| | Millions of Yen | | | | | Thousands of U.S. Dollars |
|---|---|---|---|---|---|---|
| | **2009** | 2008 | 2007 | 2006 | 2005 | **2009** |
| Net sales | **¥ 222,060** | ¥ 253,462 | ¥ 235,637 | ¥ 224,954 | ¥ 184,425 | **$ 2,265,920** |
| Operating income (loss) | **(483)** | 10,884 | 10,611 | 16,051 | 7,065 | **(4,927)** |
| Income (loss) before income taxes and minority interests | **(2,618)** | 9,055 | 9,037 | 13,784 | 6,381 | **(26,715)** |
| Net income (loss) | **(14,105)** | 5,693 | 4,922 | 8,152 | 3,289 | **(143,929)** |
| Property, plant and equipment | **88,796** | 93,092 | 96,076 | 80,301 | 67,261 | **906,084** |
| Total assets | **220,017** | 264,048 | 274,608 | 269,606 | 192,771 | **2,245,073** |
| Net assets | **104,396** | 128,155 | 127,329 | 119,784 | 108,103 | **1,065,262** |
| Per share data | | | | | | |
| Net income (loss): | | | | | | |
| Basic | **¥ (71.89)** | ¥ 29.00 | ¥ 24.97 | ¥ 40.23 | ¥ 15.74 | **$ (0.7)** |
| Diluted | **-** | 26.23 | 22.56 | 39.49 | 15.74 | **-** |
| Number of employees | **4,467** | 4,539 | 4,637 | 4,724 | 4,374 | |

Notes:
1. Net sales are presented exclusive of consumption taxes.
2. Scope of Consolidation:
   All subsidiaries are consolidated. Names of subsidiaries at March 31, 2008 are as follows:
   Aiko Corporation, Aichi Ceratec Corporation, Omi Mining Co., Ltd., Aichi Techno Metal Fukaumi Company, Aichi Steel Logistics Co., Ltd., Aichi Information System Company, Aiko Service Co., Ltd., Aichi Micro Intelligent Corporation, Asdex Corporation, Aichi Forging Company of Asia, Inc., Aichi USA, Inc., Louisville Forge and Gear Works, LLC, Aichi Europe GmbH, Aichi International (Thailand) Co., LTD., Shanghai Aichi Forging Co., Ltd., PT. Aichi Forging Indonesia, Aichi Magfine Czech s.r.o., and AMIT, Inc.
3. Effective from the year ended March 31, 2007, the Company adopted Financial Accounting Standard No.5 'Accounting Standards for Presentation of Net Assets in the Balance Sheet' and its Implementation Guidance No.8 'Guidance on Accounting Standards for Presentation of Net Assets in the Balance Sheets' issued on December 9, 2005 by the Accounting Standards Board of Japan.
4. Net income per share is computed by dividing income available to shareholders of common stock by the weighted-average number of shares of common stock outstanding during the respective years.
5. Diluted net income per share of the fiscal year ended 2009 has not been presented, because no potentially dilutive common stock relevant to the calculation existed at the year end.
6. Each fiscal year end date is March 31.
7. The U.S. dollar amounts above represent translations of yen, for convenience only, at the rate of ¥98=U.S.$1.

### Five –year Summary (Non-Consolidated)

| | Millions of Yen | | | | | Thousands of U.S. Dollars |
|---|---|---|---|---|---|---|
| | **2009** | 2008 | 2007 | 2006 | 2005 | **2009** |
| Net sales | **¥ 181,317** | ¥ 202,860 | ¥ 187,076 | ¥ 178,621 | ¥ 149,479 | **$ 1,850,177** |
| Operating income (loss) | **(3,209)** | 6,559 | 7,012 | 15,051 | 7,543 | **(32,742)** |
| Income (loss) before income taxes | **(3,877)** | 5,811 | 6,929 | 11,532 | 7,235 | **(39,565)** |
| Net income (loss) | **(14,573)** | 3,838 | 4,017 | 5,478 | 4,345 | **(148,703)** |
| Property, plant and equipment | **75,250** | 77,539 | 79,575 | 64,779 | 54,847 | **767,855** |
| Total assets | **200,006** | 236,098 | 250,844 | 246,287 | 175,234 | **2,040,879** |
| Net assets | **95,919** | 115,615 | 117,709 | 116,770 | 108,686 | **978,767** |
| Per share data | | | | | | |
| Net income (loss): | | | | | | |
| Basic | **¥ (74.28)** | ¥ 19.55 | ¥ 20.38 | ¥ 27.08 | ¥ 21.34 | **$ (0.8)** |
| Diluted | **-** | 17.68 | 18.42 | 26.59 | 21.33 | **-** |
| Dividends | **7.50** | 10.00 | 10.00 | 9.00 | 6.00 | **0.1** |
| Number of employees | **2,331** | 2,328 | 2,327 | 2,340 | 2,359 | |

Notes:
1. Net sales are presented exclusive of consumption taxes.
2. Effective from the year ended March 31, 2007, the Company adopted Financial Accounting Standard No.5 'Accounting Standards for Presentation of Net Assets in the Balance Sheet' and its Implementation Guidance No.8 'Guidance on Accounting Standards for Presentation of Net Assets in the Balance Sheets' issued on December 9, 2005 by the Accounting Standards Board of Japan.
3. Net income per share is computed by dividing income available to shareholders of common stock by the weighted-average number of shares of common stock outstanding during the respective years.
4. Diluted net income per share of the fiscal year ended 2009 has not been presented, because no potentially dilutive common stock relevant to the calculation existed at the year end.
5. Each fiscal year end date is March 31.
6. The U.S. dollar amounts above represent translations of yen, for convenience only, at the rate of ¥98=U.S.$1.

Financial Section

# Consolidated Balance Sheets

**As at March 31, 2009 and 2008**

| | Millions of Yen | | Thousands of U.S. Dollars |
|---|---|---|---|
| | **2009** | 2008 | **2009** |
| **Assets** | | | |
| **Current assets:** | | | |
| Cash and deposit | **¥ 37,312** | ¥ 30,408 | **$ 380,734** |
| Notes and accounts receivable (Notes7, 18) | **26,884** | 53,859 | **274,325** |
| Short-term investments (Note 4) | **245** | 245 | **2,503** |
| Finished goods | **6,364** | 7,967 | **64,942** |
| Work in process | **17,518** | 20,886 | **178,759** |
| Raw materials and supplies | **11,283** | 13,104 | **115,126** |
| Deferred tax assets (Note 17) | **454** | 4,207 | **4,630** |
| Other assets | **3,653** | 7,636 | **37,280** |
| Less: allowance for doubtful receivables | **(173)** | (159) | **(1,767)** |
| **Total current assets** | **103,540** | 138,153 | **1,056,532** |
| **Fixed Assets:** | | | |
| **Property, plant and equipment: (Note 6)** | | | |
| Buildings and structures | **56,643** | 56,485 | **577,990** |
| Less: accumulated depreciation | **(36,615)** | (35,266) | **(373,623)** |
| Machinery, equipment and vehicles | **243,173** | 242,459 | **2,481,353** |
| Less: accumulated depreciation | **(195,792)** | (188,455) | **(1,997,876)** |
| Equipment | **12,725** | 13,118 | **129,846** |
| Less: accumulated depreciation | **(10,801)** | (10,807) | **(110,214)** |
| Land | **14,204** | 12,521 | **144,937** |
| Lease assets | **42** | - | **432** |
| Less: accumulated depreciation | **(4)** | - | **(37)** |
| Construction in progress | **5,221** | 3,037 | **53,276** |
| **Net property, plant and equipment** | **88,796** | 93,092 | **906,084** |
| **Intangible fixed assets:** | | | |
| Telephone rights | **12** | 12 | **120** |
| Other assets | **240** | 28 | **2,452** |
| **Total intangible fixed assets** | **252** | 40 | **2,572** |
| **Investments and other assets:** | | | |
| Investment securities (Note 4) | **10,862** | 16,484 | **110,838** |
| Long-term loans | **1,020** | 1,314 | **10,404** |
| Prepaid pension cost (Note 15) | **14,360** | 13,922 | **146,534** |
| Deferred tax assets (Note 17) | **272** | 273 | **2,769** |
| Other assets | **940** | 795 | **9,595** |
| Less: allowance for doubtful receivables | **(25)** | (25) | **(255)** |
| **Total investments and other assets** | **27,429** | 32,763 | **279,885** |
| **Total fixed assets** | **116,477** | 125,895 | **1,188,541** |
| **Total Assets** | **¥ 220,017** | ¥ 264,048 | **$ 2,245,073** |

The accompanying notes are an integral part of these financial statements.

| | Millions of Yen | | Thousands of U.S. Dollars |
|---|---|---|---|
| | **2009** | 2008 | **2009** |
| **Liabilities and Net Assets** | | | |
| **Liabilities** | | | |
| **Current liabilities:** | | | |
| Notes and accounts payable | **¥ 13,154** | ¥ 31,866 | **$ 134,231** |
| Short-term borrowings (Note 5 ) | **2,497** | 1,664 | **25,481** |
| Current portion of long-term debt(Note 5) | **5,647** | 20,978 | **57,621** |
| Lease obligations (Note 5) | **8** | - | **84** |
| Income taxes payable | **244** | 2,008 | **2,490** |
| Accrued bonuses for directors and corporate auditors | **-** | 244 | **-** |
| Deferred tax liabilities (Note 17) | **167** | 2 | **1,701** |
| Other liabilities | **10,749** | 14,451 | **109,682** |
| **Total current liabilities** | **32,466** | 71,213 | **331,290** |
| **Long-term liabilities:** | | | |
| Convertible bond with stock acquisition rights | **30,000** | 30,000 | **306,122** |
| Long-term debt (Note 5) | **35,801** | 21,641 | **365,315** |
| Lease obligations (Note 5) | **33** | - | **331** |
| Long-term payables | **992** | 1,386 | **10,123** |
| Deferred tax liabilities (Note 17) | **6,070** | 1,365 | **61,943** |
| Employees' retirement benefit liabilities (Note 15) | **9,164** | 9,008 | **93,510** |
| Retirement benefit obligation for directors and corporate auditors | **974** | 1,198 | **9,938** |
| Other liabilities | **121** | 82 | **1,239** |
| **Total long-term liabilities** | **83,155** | 64,680 | **848,521** |
| **Total liabilities** | **115,621** | 135,893 | **1,179,811** |
| **Net Assets** | | | |
| **Shareholders' equity:(Note 8)** | | | |
| Common stock, no par value: | | | |
| Authorized: 476,000,000 shares; | **25,017** | 25,017 | **255,273** |
| Issued: 198,866,751 shares in 2009 and 2008 | | | |
| Capital surplus | **27,899** | 27,899 | **284,681** |
| Retained earnings | **47,093** | 63,162 | **480,542** |
| Less, treasury stock, at cost | **(1,610)** | (1,612) | **(16,422)** |
| 2,665,366 shares in 2009 and 2,666,097 shares in 2008 | | | |
| **Total shareholders' equity** | **98,399** | 114,466 | **1,004,074** |
| **Valuation and translation adjustments** | | | |
| Net unrealized gains on available-for-sale securities, net of taxes | **2,950** | 6,171 | **30,100** |
| Foreign currency translation adjustments | **(1,648)** | 1,889 | **(16,819)** |
| **Total valuation and translation adjustments** | **1,302** | 8,060 | **13,281** |
| **Subscription rights to shares (Note16)** | **149** | 99 | **1,516** |
| **Minority interests in subsidiaries** | **4,546** | 5,530 | **46,391** |
| **Total Net assets** | **104,396** | 128,155 | **1,065,262** |
| Commitments and contingent liabilities (Note 7) | | | |
| **Total Liabilities and Net assets** | **¥ 220,017** | ¥ 264,048 | **$ 2,245,073** |

# Consolidated Statements of Income

**For the Years Ended March 31, 2009 and 2008**

| | Millions of Yen | | Thousands of U.S. Dollars |
|---|---|---|---|
| | **2009** | 2008 | **2009** |
| Net sales (Notes 18 and 19) | **¥ 222,060** | ¥ 253,462 | **$ 2,265,920** |
| Cost of sales | **202,009** | 220,662 | **2,061,319** |
| **Gross profit** | **20,051** | 32,800 | **204,601** |
| **Selling, general and administrative expenses:** | | | |
| Freight expenses | **3,582** | 3,265 | **36,552** |
| Sales commission | **1,024** | 1,205 | **10,453** |
| Salaries and allowances and welfare expenses | **7,143** | 8,381 | **72,890** |
| Retirement benefit expenses | **429** | 276 | **4,379** |
| Provision of allowance for directors' bonuses | **-** | 241 | **-** |
| Provision of allowance for directors' retirement benefits | **238** | 255 | **2,426** |
| Provision of allowance for doubtful receivables | **32** | - | **322** |
| Depreciation | **658** | 601 | **6,716** |
| Research and development expenses (Note 9) | **2,829** | 2,001 | **28,867** |
| Others | **4,599** | 5,691 | **46,923** |
| Total selling, general and administrative expenses | **20,534** | 21,916 | **209,528** |
| **Operating income (loss) (Note 19)** | **(483)** | 10,884 | **(4,927)** |
| **Non-operating income:** | | | |
| Interest income | **250** | 324 | **2,547** |
| Dividend income | **313** | 290 | **3,195** |
| Rent income | **70** | 80 | **720** |
| Gain on sales of goods | **260** | 187 | **2,657** |
| Gain on valuation of derivatives | **-** | 329 | **-** |
| Others | **402** | 617 | **4,099** |
| Total non-operating income | **1,295** | 1,827 | **13,218** |
| **Non-operating expenses:** | | | |
| Interest expenses | **840** | 635 | **8,574** |
| Loss on disposal of property, plant and equipment, net | **436** | 674 | **4,447** |
| Loss on valuation of derivatives | **141** | - | **1,439** |
| Foreign exchange loss | **683** | 1,250 | **6,977** |
| Others | **516** | 820 | **5,264** |
| Total other expenses | **2,616** | 3,379 | **26,701** |
| **Ordinary income (loss)** | **(1,804)** | 9,332 | **(18,410)** |
| **Extraordinary expenses :** | | | |
| Impairment loss on fixed assets (Note 10) | **814** | 277 | **8,305** |
| Total extraordinary expenses | **814** | 277 | **8,305** |
| **Income (loss) before income taxes and minority interests** | **(2,618)** | 9,055 | **(26,715)** |
| **Income taxes:** | | | |
| Current | **525** | 2,792 | **5,359** |
| For prior periods | **212** | - | **2,163** |
| Deferred | **11,040** | 278 | **112,650** |
| Total income taxes | **11,777** | 3,070 | **120,172** |
| Minority interests in net income (loss) of subsidiaries | **(290)** | 292 | **(2,958)** |
| **Net income (loss)** | **¥ (14,105)** | ¥ 5,693 | **$ (143,929)** |
| | Yen | | U.S. Dollars |
| **Per share (Note20)** | | | |
| **Net income (loss):** | | | |
| Basic | **¥ (71.89)** | ¥ 29.00 | **$ (0.7)** |
| Diluted | **-** | 26.23 | **-** |
| Cash dividends | **7.50** | 10.00 | **0.1** |

The accompanying notes are an integral part of these financial statements.

# Consolidated Statements of Changes in Net Assets

**For the Years Ended March 31, 2009 and 2008**

| | Millions of Yen | | Thousands of U.S. Dollars |
|---|---|---|---|
| | **2009** | 2008 | **2009** |
| **Shareholders' equity** | | | |
| Common stock | | | |
| Balance at the beginning of year | **¥ 25,017** | ¥ 25,017 | **$ 255,273** |
| Balance at the end of year | **25,017** | 25,017 | **255,273** |
| Capital surplus | | | |
| Balance at the beginning of year | **27,899** | 27,899 | **284,681** |
| Balance at the end of year | **27,899** | 27,899 | **284,681** |
| Retained earnings | | | |
| Balance at the beginning of year | **63,162** | 59,410 | **644,510** |
| Change of items during the period | | | |
| Cash dividends (Note11) | **(1,962)** | (1,966) | **(20,021)** |
| Net income(loss) for the year | **(14,105)** | 5,693 | **(143,929)** |
| Disposal of treasury stock due to exercise of stock options | **(2)** | (7) | **(18)** |
| Increase due to decrease in consolidated subsidiaries | **-** | 32 | **-** |
| Total changes of items during the period | **(16,069)** | 3,752 | **(163,968)** |
| Balance at the end of year | **47,093** | 63,162 | **480,542** |
| Treasury stock | | | |
| Balance at the beginning of year | **(1,612)** | (1,001) | **(16,446)** |
| Change of items during the period | | | |
| Purchase of treasury stock and fractional shares | **(3)** | (693) | **(29)** |
| Disposal of treasury stock due to exercise of stock options | **5** | 82 | **53** |
| Total changes of items during the period | **2** | (611) | **24** |
| Balance at the end of year | **(1,610)** | (1,612) | **(16,422)** |
| Total shareholders' equity | | | |
| Balance at the beginning of year | **114,466** | 111,325 | **1,168,018** |
| Change of items during the period | | | |
| Cash dividends (Note11) | **(1,962)** | (1,966) | **(20,021)** |
| Net income(loss) for the year | **(14,105)** | 5,693 | **(143,929)** |
| Purchase of treasury stock and fractional shares | **(3)** | (693) | **(29)** |
| Disposal of treasury stock due to exercise of stock options | **3** | 75 | **35** |
| Increase due to decrease in consolidated subsidiaries | **-** | 32 | **-** |
| Total changes of items during the period | **(16,067)** | 3,141 | **(163,944)** |
| Balance at the end of year | **¥ 98,399** | ¥ 114,466 | **$ 1,004,074** |

## Financial Section

# Consolidated Statements of Changes in Net Assets

**For the Years Ended March 31, 2009 and 2008**

| | Millions of Yen | | Thousands of U.S. Dollars |
|---|---|---|---|
| | **2009** | 2008 | **2009** |
| **Valuation and translation adjustments** | | | |
| Net unrealized gains on available-for-sale securities, net of taxes | | | |
| Balance at the beginning of year | **¥ 6,171** | ¥ 9,597 | **$ 62,975** |
| Change of items during the period | | | |
| Net changes of items other than shareholders' equity | **(3,221)** | (3,426) | **(32,875)** |
| Total changes of items during the period | **(3,221)** | (3,426) | **(32,875)** |
| Balance at the end of year | **2,950** | 6,171 | **30,100** |
| Foreign currency translation adjustments | | | |
| Balance at the beginning of year | **1,889** | 1,061 | **19,273** |
| Change of items during the period | | | |
| Net changes of items other than shareholders' equity | **(3,537)** | 828 | **(36,092)** |
| Total changes of items during the period | **(3,537)** | 828 | **(36,092)** |
| Balance at the end of year | **(1,648)** | 1,889 | **(16,819)** |
| Total valuation and translation adjustments | | | |
| Balance at the beginning of year | **8,060** | 10,658 | **82,248** |
| Change of items during the period | | | |
| Net changes of items other than shareholders' equity | **(6,758)** | (2,598) | **(68,967)** |
| Total changes of items during the period | **(6,758)** | (2,598) | **(68,967)** |
| Balance at the end of year | **1,302** | 8,060 | **13,281** |
| Subscription rights to shares | | | |
| Balance at the beginning of year | **99** | 31 | **1,013** |
| Change of items during the period | | | |
| Net changes of items other than shareholders' equity | **50** | 68 | **503** |
| Total changes of items during the period | **50** | 68 | **503** |
| Balance at the end of year | **149** | 99 | **1,516** |
| Minority interests in subsidiaries | | | |
| Balance at the beginning of year | **5,530** | 5,315 | **56,430** |
| Change of items during the period | | | |
| Net changes of items other than shareholders' equity | **(984)** | 215 | **(10,039)** |
| Total changes of items during the period | **(984)** | 215 | **(10,039)** |
| Balance at the end of year | **4,546** | 5,530 | **46,391** |
| Total net assets | | | |
| Balance at the beginning of year | **128,155** | 127,329 | **1,307,709** |
| Change of items during the period | | | |
| Cash dividends (Note11) | **(1,962)** | (1,966) | **(20,021)** |
| Net income(loss) for the year | **(14,105)** | 5,693 | **(143,929)** |
| Purchase of treasury stock and fractional shares | **(3)** | (693) | **(29)** |
| Disposal of treasury stock due to exercise of stock options | **3** | 75 | **35** |
| Increase due to decrease in consolidated subsidiaries | **-** | 32 | **-** |
| Net changes of items other than shareholders' equity | **(7,692)** | (2,315) | **(78,503)** |
| Total changes of items during the period | **(23,759)** | 826 | **(242,447)** |
| Balance at the end of year | **¥ 104,396** | ¥ 128,155 | **$ 1,065,262** |

The accompanying notes are an integral part of these financial statements.

# Consolidated Statements of Cash Flows

**For the Years Ended March 31, 2009 and 2008**

| | Millions of Yen | | Thousands of U.S. Dollars |
|---|---|---|---|
| | **2009** | 2008 | **2009** |
| **Cash flows from operating activities:** | | | |
| (Loss) income before income taxes and minority interests | **¥ (2,618)** | ¥ 9,055 | **$ (26,715)** |
| Adjustments for depreciation | **14,795** | 14,754 | **150,968** |
| Adjustments for impairment loss on fixed assets | **814** | 277 | **8,305** |
| Increase of prepaid pension cost | **(437)** | (1,004) | **(4,468)** |
| Increase (decrease) of employees' retirement benefit obligation | **192** | (72) | **1,962** |
| Decrease in defined contribution pension payable | **(358)** | (395) | **(3,653)** |
| Increase (decrease) of allowance for doubtful receivables | **26** | (36) | **266** |
| Interest and dividend income | **(563)** | (615) | **(5,742)** |
| Interest expense | **840** | 635 | **8,575** |
| Foreign exchange loss | **233** | 685 | **2,380** |
| (Gain) loss on sale of property, plant and equipment, net | **(5)** | 172 | **(55)** |
| Loss on disposal of property, plant and equipment | **298** | 370 | **3,045** |
| Increase/Decrease in operating assets and liabilities: | | | |
| Notes and accounts receivable | **25,814** | 4,339 | **263,406** |
| Inventories | **5,197** | (4,539) | **53,031** |
| Notes and accounts payable | **(13,507)** | (3,940) | **(137,829)** |
| Other, net | **(1,875)** | (206) | **(19,131)** |
| Subtotal | **28,846** | 19,480 | **294,345** |
| Interest and dividend received | **565** | 617 | **5,763** |
| Interest paid | **(740)** | (634) | **(7,549)** |
| Income taxes paid | **(2,351)** | (3,384) | **(23,990)** |
| Net cash provided by operating activities | **26,320** | 16,079 | **268,569** |
| **Cash flows from investing activities:** | | | |
| Net increase in time deposits | **(0)** | (10) | **(0)** |
| Payments for purchase of property, plant and equipment | **(15,952)** | (18,665) | **(162,773)** |
| Proceeds from sales of property, plant and equipment | **37** | 140 | **375** |
| Payments for purchase of investment securities | **(1)** | (5) | **(15)** |
| Proceeds from sales of shares of former consolidated subsidiaries (Note12) | **-** | 233 | **-** |
| Payments for acquisition of subsidiary's shares | **(47)** | (6) | **(476)** |
| Payments for subscriptions | **(115)** | - | **(1,174)** |
| Payments for loans | **-** | (68) | **-** |
| Collections of loans | **294** | 177 | **3,000** |
| Others, net | **(65)** | 13 | **(665)** |
| Net cash used in investing activities | **(15,849)** | (18,191) | **(161,728)** |
| **Cash flows from financing activities:** | | | |
| Net increase (decrease) in short-term borrowings | **1,172** | (332) | **11,960** |
| Proceeds from long-term debt | **20,000** | 651 | **204,082** |
| Repayments of long-term debt | **(20,934)** | (843) | **(213,608)** |
| Payments for refund of lease obligations | **(4)** | - | **(37)** |
| Proceeds from minority shareholders of subsidiary | **-** | 110 | **-** |
| Payments for acquisitions of treasury stock | **(3)** | (693) | **(29)** |
| Proceeds from disposal of treasury stock | **1** | 1 | **15** |
| Proceeds from exercise of stock options | **2** | 73 | **20** |
| Cash dividends paid | **(1,962)** | (1,964) | **(20,021)** |
| Cash dividends paid to minority shareholders | **(72)** | (75) | **(739)** |
| Others | **3** | - | **30** |
| Net cash used in financing activities | **(1,797)** | (3,072) | **(18,327)** |
| **Effect of exchange rate changes on cash and cash equivalents** | **(1,770)** | 47 | **(18,059)** |
| **Net Increase (decrease) in cash and cash equivalents** | **6,904** | (5,137) | **70,455** |
| **Cash and cash equivalents at beginning of year** | **30,492** | 35,629 | **311,139** |
| **Cash and cash equivalents at end of year** | **¥ 37,396** | ¥ 30,492 | **$ 381,594** |

The accompanying notes are an integral part of these financial statements.

# Notes to Consolidated Financial Statements



## 1. Basis of Presenting Consolidated Financial Statements

**(a) Basis of presenting the consolidated financial statements**

The accompanying consolidated financial statements of AICHI STEEL CORPORATION ("the Company") and its subsidiaries are prepared on the basis of accounting principles generally accepted in Japan, which are different in certain respects as to application and disclosure requirements of International Financial Reporting Standards. These consolidated financial statements are compiled from the original consolidated financial statements in Japanese prepared by the Company as required by the Financial Instruments and Exchange Law and submitted to the Director of Kanto Finance Bureau in Japan.

On the accompanying consolidated financial statements, amounts less than ¥1 million are rounded to the nearest million yen; therefore, some accounts and notes are not consistent with those on the consolidated financial statements submitted to the Director of Kanto Finance Bureau in Japan, on which amounts less than ¥1 million are omitted.

**(b) U.S. dollar amounts**

The U.S. dollar amounts included in the accompanying consolidated financial statements and notes thereto represent the arithmetic results of translating Japanese Yen into U.S. dollars at the rate of ¥98 to $1, the approximate rate of exchange at March 31, 2009. The inclusion of such dollar amounts is solely for the convenience of the readers and is not intended to imply that the assets and liabilities originating in Yen have been or could be readily converted, realized or settled in U.S. dollars at ¥98 to $1 or at any other rates. Amounts are rounded to the nearest US$ 1 thousand.

**(c) Reclassification**

In preparing the accompanying consolidated financial statement, certain comparative figures have been reclassified to conform to the current year's presentations.

## 2. Summary of Significant Accounting Policies

**(a) Principles of consolidation**

The accompanying consolidated financial statements include the accounts of the Company and all of its subsidiaries (18 companies in 2009 and 2008). Investments in affiliates (3 companies in 2009 and 2008) are carried at cost, since the equity in retained earnings and net income of affiliates is not material. Significant intercompany transactions and accounts have been eliminated. Assets and liabilities of subsidiaries are revalued at their fair value as of the date of acquisition of control based on the full fair value method.

**(a-i) Scope of consolidation**

Subsidiaries at March 31, 2009 are as follows:

Domestic subsidiaries (9 companies):

- Aiko Corporation
- Aichi Ceratec Corporation
- Omi Mining Co., Ltd.
- Aichi Techno Metal Fukaumi Company
- Aichi Steel Logistics Co., Ltd.
- Aichi Information System Company
- Aiko Service Co., Ltd.
- Aichi Micro Intelligent Corporation
- Asdex Corporation

Overseas subsidiaries (9 companies):

- Aichi Forging Company of Asia, Inc.
- Aichi USA, Inc.
- Louisville Forge and Gear Works, LLC
- Aichi Europe GmbH
- Aichi International (Thailand) Co., Ltd.
- Shanghai Aichi Forging Co., Ltd.
- PT. Aichi Forging Indonesia
- Aichi Magfine Czech s.r.o.
- AMIT, Inc.

**(a-ii) Fiscal year of subsidiaries**

The Company's overseas subsidiaries use the fiscal year ending December 31, three months earlier than the Company. The Company consolidates such subsidiaries' financial statements as at December 31. Significant transactions for the period between subsidiaries' year-end and the Company's year-end are adjusted on consolidation.

**(b) Cash and cash equivalents**

The Company and its subsidiaries consider short-term highly liquid investments with maturities of three months or less when purchased to be cash equivalents.

**(c) Valuation of securities**

The accounting standard for financial instruments requires that securities to be classified into three categories: trading, held-to-maturity or available-for-sale, whose classification determines the respective accounting method. According to the Company's investment policies, the securities portfolio of the Company and its subsidiaries are classified as available-for-sale securities. The accounting standard requires that available-for-sale securities with available market quotations are valued at fair value, and net unrealized gains or losses on such securities are reported as a separate component of net assets, net of applicable income taxes. Gains and losses on disposition of marketable securities are computed by the moving average method. Non-marketable available-for-sale securities without marketable quotations are carried at cost determined by the moving average method. Adjustments in carrying values of individual investment securities are charged to income through write-downs, when a significant decline in value is deemed other than temporary.

**(d) Derivatives and Hedge Accounting**

Derivatives are valued at fair value where hedge accounting is not appropriate or where there is no hedging designation, and gains or losses on derivatives are recognized in current earnings. In addition, when interest rate swaps that meet certain required conditions have critical terms matching exactly with those of financial assets or liabilities that are being hedged, such interest rate swaps are not recognized in the balance sheet, and net interest paid or received on the swaps is recognized as an adjustment to the interest income or expense on the financial assets or liabilities that are being hedged.

The Company uses the interest rate swap contract for the borrowing from a bank to reduce its own exposure to fluctuations in interest rates. The Company does not perform the evaluation of effectiveness of the hedging items because the interest rate swap contract meets the required condition above.

**(e) Inventories**

Finished goods and work in process are mainly stated at cost determined by the periodic average method. The amount carried on the balance sheet is evaluated by devaluation method based on decline of profit. Raw materials and supplies are mainly stated at cost determined by the moving average method, and the amount on balance sheet is evaluated by the devaluation method based on decline of profit, except for rolls and molds included in supplies, which are depreciated over useful life and recorded after depreciation value.

The inventory amount on the balance sheet of is stated after devaluation based on decline of profit and evaluation loss of inventory of ¥2,790 million ($28,472 thousand) as included in 'Cost of goods sold' on income statement.

(Accounting Change)

Effective from the year ended March 31, 2009, the Company and its domestic subsidiaries have adopted Financial Accounting Standard No.9 'Accounting Standard for Evaluation of Inventory' issued on July 5, 2006. As a result of the adoption, operating losses increased by ¥2,652 million ($27,058 thousand) , and ordinary losses and losses before income taxes and minority interests increased by ¥1,333 million($13,604 thousand).

**(f) Property, plant and equipment**

Property, plant and equipment are stated at cost, and have been depreciated by the declining balance method. The exceptions to this are the No.2 Bar and Wire Rod Mill Shop of the Company as well as lease assets which have been depreciated by the straight-line method.

Where financing leases do not transfer ownership of the leased property to the lessee during the term of the lease contract began before April 1, 2008, the leased property of the Company and its domestic subsidiaries are not capitalized and the relating rental and lease expenses are charged to income as incurred.

Expenditures on maintenance and repairs are charged to income as incurred. Upon the disposal of property, the cost and accumulated depreciation are removed from the related accounts and any gain or loss is recorded as income or expenses.

(Additional information)

The Company and its domestic subsidiaries have changed the depreciable period for a part of property, plant and equipment using the opportunity provided by the 2008 tax reform. As a result, operating losses, ordinary losses and losses before income taxes and minority interest increased by ¥1,013 million($10,332 thousand).

For the year ended March 31, 2008

(Accounting Change)

Effective from the year ended March 31, 2008, the Company and its domestic subsidiaries have changed their depreciation methods for property, plant and equipment acquired on or after April 1, 2007 in accordance with the revised Corporate Tax Law of Japan. As a result of the change, operating income, ordinary income and income before income taxes and minority interests decreased by ¥292 million.

(Additional information)

Effective from the year ended March 31, 2008, the Company and its domestic subsidiaries depreciate property, plant and equipment acquired before April 1, 2007 from 5% of their cost to ¥1 by the straight-line method for 5 years from the following year the property, plant and equipment reach 5% of their cost calculated using the previous depreciation method, in accordance with the revised Corporate Tax Law of Japan. As a result of the change, operating income, ordinary income and income before income taxes and minority interests decreased by ¥1,087 million.

**(g) Goodwill and Negative Goodwill**

The difference between the cost of investments in subsidiaries and the underlying equity in their net assets is recorded as goodwill or negative goodwill in the consolidated balance sheets and amortized using the straight –line method over a period of 20 years. If the amount is immaterial, it is fully recognized as an expense when incurred.

**(h) Allowance for doubtful receivables**

An allowance for doubtful receivables is provided based on the historical loss expense during a certain reference period, plus the estimated non-collectable amount based on the analysis of certain specific accounts in accordance with the accounting standard.

**(i) Employees' retirement benefit obligation**

The Company and its subsidiaries have recognized the retirement benefit obligation including pension costs and related liabilities based on the actuarial present value of the projected benefit obligation using actuarial appraisal approach and the pension plan assets available for benefits at the respective year-ends. Unrecognized actuarial differences from changes in the projected benefit obligation or pension plan assets resulting from differences in actual experiences from those assumed or from changes in assumptions, are amortized straight-line method over 15 years. The period is intended to reflect the expected average remaining service life of employees, and amortization commences in the year following that in which they arise. Prior service costs are amortized straight-line over 15 or 16 years.

Employees' retirement benefit obligation includes reserve for retirement benefits of executive officers calculated based on the method similar to that used for to determine the retirement benefit obligation for directors and corporate auditors.

**(j) Retirement benefit obligation for directors and corporate auditors**

The Company and its domestic subsidiaries pay severance indemnities to directors and corporate auditors, which are subject to the approval of the shareholders. The Company and its domestic subsidiaries have provided for the full amount of the liabilities of directors' and corporate auditors' retirement benefits which would be required for payments of retirement benefits for directors and corporate auditors in accordance with internal regulations at the respective balance sheet dates.

**(k) Income taxes**

Income taxes are accounted for in accordance with the accounting standard for income taxes, which requires recognition of deferred taxes using the asset and liability method. Under the accounting standard, deferred tax assets and liabilities are recognized to account for the future tax consequences of differences between the carrying amounts of existing assets and liabilities and their respective tax bases, and are measured using the enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in the period that includes the enactment date.

**(l) Consumption taxes**

Consumption taxes are excluded from the revenue and expense accounts which are subject to such taxes.

**(m) Accounting for foreign currency translation**

All monetary assets and liabilities denominated in foreign currencies, whether long-term or short-term, are translated into Japanese yen at the exchange rates prevailing at the respective balance sheet dates. The resulting unrealized gain or loss is charged to income each year.

Assets and liabilities of overseas subsidiaries are translated into Japanese yen at the exchange rates prevailing at the balance sheet dates. The shareholders' equity in Net Assets is translated into Japanese yen at the historical rates. Profit and loss accounts for the year are translated into Japanese yen using the average exchange rates during the respective years. Differences in yen amounts arising from use of different rates have been presented as "Foreign currency translation adjustments" in Net Assets or included in "Minority interests in subsidiaries" in Net Assets.

**(n) Per share data**

Basic net income per share of common stock is computed by dividing income available to shareholders of common stock by the weighted-average number of shares of common stock outstanding for the period. Diluted net income per share of common stock is calculated based on the assumption for the possible dilution that could occur if securities or other contracts to issue common stock were exercised or converted into common stock, or result in the issuance of common stock.

As described in Note 16, the Company granted the stock option to its directors, executive officers and selected employees for purchase of its common stock. In addition, the Company issued a ¥30-billion convertible bond-type bond with stock acquisition rights during the year ended March 31, 2006. Diluted net income per share of common stock for the year ended March 31, 2009 and 2008 reflects possible dilution of the stock option and the convertible bond-type bond with stock acquisition rights to shares.

Cash dividends per share shown for each fiscal year in the accompanying consolidated statements of income represent dividends declared as applicable to the respective years.

# Notes to Consolidated Financial Statements



## 3. Accounting Changes

**(a) Accounting standard for lease transaction**

The Company and its domestic subsidiaries did not capitalize finance leases which do not transfer ownership of the leased property to the lessee during the term of the lease contract and charged the related rental and lease expenses to income as incurred until the year ended March 31, 2008. Effective from the year ended March 31, 2009, the Company and its domestic subsidiaries adopted Financial Accounting Standard No. 13 'Accounting Standard for Lease Transaction' issued on June 17, 1993 and revised on March 30, 2007 by Accounting Standards Board of Japan and its Implementation Guidance No.16 issued on January 18, 1994 and revised on March 30, 2007 by Accounting Standards Board of Japan. In accordance with the Standard and the Guidance, finance leases other than those deemed to transfer the ownership of leased properties to lessees are accounted for mainly by a method similar to that applicable to ordinary sales transactions, instead by the former method, a method similar to that applicable to ordinary operating leases.

This change does not influence operating loss, ordinary loss and loss before income taxes and minority interest.

**(b) Accounting policies applied to overseas subsidiaries**

Effective from the year ended March 31, 2009, the Company and its subsidiaries have adopted Practical Issue Task Force No.18 'Practical Solution on Unification of Accounting Policies Applied to Foreign Subsidiaries for Consolidated Financial Statements' issued on May 17, 2006 by the Accounting Standards Board of Japan, and makes the necessary adjustments for its consolidated financial statements.

This adoption does not influence operating loss, ordinary loss and loss before income taxes and minority interest.

## 4. Investments

**(a) Investment securities**

All marketable securities are classified as available-for-sale and are valued at fair value with unrealized gains and losses excluded from the current earnings and reported as a net amount within net assets until realized. At March 31, 2009 and 2008, gross unrealized gains and losses for marketable securities are summarized as follows:

| | Millions of Yen | | |
|---|---|---|---|
| | Acquisition cost | Fair and carrying value | Difference |
| At March 31, 2009: | | | |
| Securities with fair value exceeding acquisition cost | | | |
| Marketable securities: | | | |
| Equity securities | ¥ 2,167 | ¥ 6,929 | ¥ 4,762 |
| Bonds | - | - | - |
| Others | - | - | - |
| Subtotal | ¥ 2,167 | ¥ 6,929 | ¥ 4,762 |
| Securities with fair value not exceeding acquisition cost | | | |
| Marketable securities: | | | |
| Equity securities | ¥ 190 | ¥ 155 | ¥ (35) |
| Bonds | - | - | - |
| Others | - | - | - |
| Subtotal | ¥ 190 | ¥ 155 | ¥ (35) |
| Total | ¥ 2,357 | ¥ 7,084 | ¥ 4,727 |
| At March 31, 2008: | | | |
| Securities with fair value exceeding acquisition cost | | | |
| Marketable securities: | | | |
| Equity securities | ¥ 2,326 | ¥ 12,653 | ¥ 10,327 |
| Bonds | - | - | - |
| Others | - | - | - |
| Subtotal | ¥ 2,326 | ¥ 12,653 | ¥ 10,327 |
| Securities with fair value not exceeding acquisition cost | | | |
| Marketable securities: | | | |
| Equity securities | ¥ 37 | ¥ 31 | ¥ (6) |
| Bonds | - | - | - |
| Others | - | - | - |
| Subtotal | ¥ 37 | ¥ 31 | ¥ (6) |
| Total | ¥ 2,363 | ¥ 12,684 | ¥ 10,321 |

| | Thousands of U.S. Dollars | | |
|---|---|---|---|
| | Acquisition cost | Fair and carrying value | Difference |
| At March 31, 2009: | | | |
| Securities with fair value exceeding acquisition cost | | | |
| Marketable securities: | | | |
| Equity securities | $ 22,114 | $ 70,705 | $ 48,591 |
| Bonds | - | - | - |
| Others | - | - | - |
| Subtotal | $ 22,114 | $ 70,705 | $ 48,591 |
| Securities with fair value not exceeding acquisition cost | | | |
| Marketable securities: | | | |
| Equity securities | $ 1,943 | $ 1,584 | $ (359) |
| Bonds | - | - | - |
| Others | - | - | - |
| Subtotal | $ 1,943 | $ 1,584 | $ (359) |
| Total | $ 24,057 | $ 72,289 | $ 48,232 |

**Book value of investment securities carried at cost at March 31, 2009 and 2008 are as follows:**

| | Millions of Yen | | Thousands of U.S. Dollars |
|---|---|---|---|
| | **2009** | 2008 | **2009** |
| Non-marketable securities | **¥ 3,630** | ¥ 3,652 | **$ 37,040** |
| Securities investment trusts<br>(Included in Cash and cash equivalents) | **245** | 244 | **2,503** |

The Company and its subsidiaries do not have any held-to-maturity bonds or available-for-sale debt securities.

**(b) Investments in affiliates**

Investments in affiliates at March 31, 2009 and 2008 are as follows:

| | Millions of Yen | | Thousands of U.S. Dollars |
|---|---|---|---|
| | **2009** | 2008 | **2009** |
| Investments in affiliates stated at cost | **¥ 147** | ¥ 148 | **$ 1,508** |

## 5. Short-term Borrowings and Long-term Debt

Short-term borrowings at March 31, 2009 and 2008 are as follows:

| | Millions of Yen | | Thousands of U.S. Dollars |
|---|---|---|---|
| | **2009** | 2008 | **2009** |
| Unsecured bank loans at March 31, 2009 | **¥2,497** | ¥1,664 | **$25,481** |
| Average interest rate | **4.87%** | | |

Long-term debt at March 31, 2009 and 2008 are as follows:

| | Millions of Yen | | Thousands of U.S. Dollars |
|---|---|---|---|
| | **2009** | 2008 | **2009** |
| Unsecured convertible bond with stock acquisition rights due March 2011 with no interest | **¥ 30,000** | ¥ 30,000 | **$ 306,122** |
| Unsecured bank loans due through 2016 at March 31, 2009 | **41,448** | 42,619 | **422,937** |
| Average interest rate | **1.35%** | | |
| Subtotal | **71,448** | 72,619 | **729,059** |
| Less, current portion | **(5,647)** | (20,978) | **(57,621)** |
| Total | **¥ 65,801** | ¥ 51,641 | **$ 671,438** |

The current conversion price of convertible bond with stock acquisition rights due March 2011 is ¥1,440 per share and is subject to adjustment in certain circumstances, including in the event of a stock split. At March 31, 2009, approximately 21 million shares of common stock would be necessary to convert all stock acquisition rights outstanding.

# Notes to Consolidated Financial Statements



The aggregate annual maturities of long-term debt at March 31, 2009 are as follows:

| Years ending March 31, | Millions of Yen | Thousands of U.S. Dollars |
|---|---|---|
| 2010 | **¥ 5,647** | **$ 57,621** |
| 2011 | **30,676** | **313,019** |
| 2012 | **71** | **729** |
| 2013 | **15,054** | **153,608** |
| 2016 | **20,000** | **204,082** |
| Total | **¥ 71,448** | **$ 729,059** |

The aggregate annual maturities of lease obligations at March 31, 2009 are as follows:

| Years ending March 31, | Millions of Yen | Thousands of U.S. Dollars |
|---|---|---|
| 2010 | **¥ 8** | **$ 84** |
| 2011 | **10** | **103** |
| 2012 | **9** | **93** |
| 2013 | **9** | **92** |
| 2014 | **4** | **43** |
| Total | **¥ 40** | **$ 415** |

### 6. Advanced depreciation of Fixed Assets

For the year ended March 31, 2009, the amount of advanced depreciation of fixed assets with government subsidies is ¥681 million ($6,951 thousand).

### 7. Contingent Liabilities

Notes receivable endorsed at March 31, 2009 and 2008 are as follows:

| | Millions of Yen | | Thousands of U.S. Dollars |
|---|---|---|---|
| | **2009** | 2008 | **2009** |
| Notes receivable endorsed | **¥ -** | ¥ 48 | **$ -** |

Amounts guaranteed against bank loans of an affiliate and other company at March 31, 2009 and 2008 are as follows:

| | Millions of Yen | | Thousands of U.S. Dollars |
|---|---|---|---|
| | **2009** | 2008 | **2009** |
| Chita Medias Corporation | **¥ -** | ¥ 402 | **$ -** |
| Kentucky Advanced Forge, LLC | **5** | 1 | **50** |
| Total | **¥ 5** | ¥ 403 | **$ 50** |

### 8. Shareholders' Equity in Net Assets

At March 31, 2009 and 2008, respectively, capital surplus consisted of additional paid-in capital. The Companies Act ("the Act") provides that an amount equal to at least 10% of cash dividend and other distributions from retained earnings paid by the Company is appropriate as a legal reserve until the total amount of additional paid-in capital and legal reserve equals to 25% of stated capital. When the total amount of additional paid-in capital and legal reserve exceeds 25% of stated capital, such excess can be transferred to retained earnings by resolution of shareholders, which may be available for dividends. Legal reserve was included in retained earnings and amounted to ¥6,254 million ($63,818 thousand)at March 31, 2009 and 2008, respectively.

Dividends are approved by the shareholders at a meeting held after the close of the fiscal year to which the dividends are applicable. In addition, interim dividends may be paid upon resolution of the Board of Directors, subject to limitations imposed by the Act.

### 9. Research and Development Expenses

Expenses related to research and development activities are charged to income as incurred. Research and development expenses were included in general and administrative expenses, and manufacturing costs amounted to ¥2,829 million ($28,867 thousand) and ¥2,001 million for the years ended March 31, 2009 and 2008, respectively.

## 10. Impairment

**Impairment of Fixed Assets**

"Impairment loss on fixed assets" recorded in the consolidated statements of income for the year ended March 31, 2009 was as follows:

| Item | Description | Location | Millions of Yen | Thousands of U.S. Dollars |
|---|---|---|---|---|
| Machinery and equipment | Idle assets | Tokai-shi,Aichi prefecture | ¥ 249 | $ 2,536 |
| Machinery and equipment | Idle assets | Handa-shi,Aichi prefecture | 15 | 151 |
| Machinery and equipment | Idle assets | Kagamihara-shi,Gifu prefecture | 57 | 582 |
| Machinery and equipment and other assets | Idle assets | Higashiura-cho,Aichi prefecture | 27 | 277 |
| Machinery and equipment and other assets | Forging parts Product equipment | Shanghai, China | 394 | 4,022 |
| Construction in progress | Idle assets | Tokai-shi,Aichi prefecture | 58 | 594 |
| Land | Idle assets | Takayama-shi,Gifu prefecture | 0 | 2 |
| Buildings and structures and other assets | Idle assets | Tokai-shi,Aichi prefecture | 14 | 141 |
| | | | ¥ 814 | $ 8,305 |

Fixed assets are principally grouped into cash-generating units based on units of production, other than assets for rent and idle assets. An impairment loss on idle assets is calculated using the expected net selling price as the recoverable value. An impairment loss was recognized for the year ended March 31, 2009 because the forecast of future cash flow had changed due to: the renewal plan of the machinery and equipment; the fair value of the land diminishing significantly due to recent decline in land prices; and the business asset value diminishing because the change of business environment. The machinery, equipment, construction in progress and other assets is written down to ¥1 because net selling prices of the machinery, equipment, construction in progress and other assets are expected to be nil. The land is written down to the expected net selling price of the land based on the valuations carried out to determine the property tax bases for land, and the salvage values for tax purposes for other properties.
The impairment loss for the assets for forging production was recognized for the year ended March 31, 2009 because of the change of business condition. Assets for forging production are written down to the estimated collectable amount based on future cash flow discounted at 11%.

"Impairment loss on fixed assets" recorded in the consolidated statements of income for the year ended March 31, 2008 was as follows:

| Item | Description | Location | Millions of Yen | Thousands of U.S. Dollars |
|---|---|---|---|---|
| Machinery and equipment | Idle assets | Tokai-shi,Aichi prefecture | ¥ 148 | $ 1,480 |
| Machinery and equipment | Idle assets | Kagamihara-shi,Gifu prefecture | 3 | 30 |
| Construction in progress | Idle assets | Tokai-shi,Aichi prefecture | 80 | 799 |
| Land | Idle assets | Handa-shi,Aichi prefecture | 20 | 197 |
| Land | Idle assets | Takayama-shi,Gifu prefecture | 0 | 1 |
| Buildings and structures and other assets | Idle assets | Tokai-shi,Aichi prefecture | 26 | 264 |
| | | | ¥ 277 | $ 2,771 |

Fixed assets are principally grouped into cash-generating units based on the units of production, other than assets for rent and idle assets. An impairment loss on the idle assets is calculated using the expected net selling price as the recoverable value. An impairment loss was recognized for the year ended March 31, 2008 because the forecast of future cash flow had changed due to the renewal plan of the machinery and equipment and the fair value of the land diminishing significantly due to decline in land prices. The machinery, equipment, construction in progress and other assets is written down to ¥1 because net selling prices of the machinery, equipment, construction in progress and other assets are expected to be nil. The land is written down to the expected net selling price of the land based on the valuation carried out to determine property tax bases for land, and the salvage values for tax purposes for other properties.

## 11. Consolidated Statements of Changes in Net Assets

**Fiscal year ended March 31, 2009**
**(a) Type and number of shares outstanding and treasury stock**

| | Thousands of Unit | |
|---|---|---|
| | Shares outstanding | Treasury stock |
| Type | Common stock | Common stock |
| Number of shares at the end of the previous fiscal year | 198,867 | 2,666 |
| Number of increase during the year ended March 31, 2009 | - | 7 |
| Number of decrease during the year ended March 31, 2009 | - | 8 |
| Number of shares at the end of the fiscal year | 198,867 | 2,665 |

Increase in the number of shares was due to purchase of 7 thousand less-than-one-unit shares. Decrease in the number of shares was sales of 4 thousand shares by exercises of stock options and sales of 4 thousand less-than-one-unit shares.

**(b) Matters related to the subscription rights to shares**

| | | Millions of Yen | Thousands of U.S. Dollars |
|---|---|---|---|
| Class | Details | **Balance** | |
| the Company | Stock option | **¥ 148** | **$ 1,516** |

As of March 31, 2009 these rights are not yet exercisable.

# Notes to Consolidated Financial Statements



**(c) Matters related to dividends**

(1) Dividend payment

Approved at ordinary general meeting of shareholders held on June 20, 2008 as follows:

| Dividends on common stock | | |
|---|---|---|
| Total amount of dividends | ¥ 981 million | $ 10,010 thousand |
| Dividends per share | ¥ 5.00 | $ 0.05 |
| Record date | March 31, 2008 | |
| Effective date | June 23, 2008 | |

Approved at the Board of Directors at meeting held on October 30, 2008 as follows:

| Dividends on common stock | | |
|---|---|---|
| Total amount of dividends | ¥ 981 million | $ 10,010 thousand |
| Dividends per share | ¥ 5.00 | $ 0.05 |
| Record date | September 30, 2008 | |
| Effective date | November 20, 2008 | |

(2) Dividend whose record date is attributable to the year ended March 31, 2009 but to be effective after the said fiscal year.

Approved by the Company at the general meeting of shareholders held on June 19, 2009 as follows:

| Dividends on common stock | | |
|---|---|---|
| Total amount of dividends | ¥ 491 million | $ 5,005 thousand |
| Dividends per share | ¥ 2.50 | $ 0.03 |
| Record date | March 31, 2009 | |
| Effective date | June 22, 2009 | |

Dividends are paid out of retained earnings.

**Fiscal year ended March 31, 2008**

**(a) Type and number of shares outstanding and treasury stock**

| | Thousands of Unit | |
|---|---|---|
| | Shares outstanding | Treasury stock |
| Type | Common stock | Common stock |
| Number of shares at the end of the previous fiscal year | 198,867 | 1,798 |
| Number of increase during the year ended March 31, 2008 | - | 1,004 |
| Number of decrease during the year ended March 31, 2008 | - | 136 |
| Number of shares at the end of the fiscal year | 198,867 | 2,666 |

Increase in the number of shares was due to purchase of 1,000 thousand shares based on Article 459, Paragraph 1, item 1 of the Corporation Law and purchase of 4 thousand less-than-one-unit shares. Decrease in the number of shares was sales of 134 thousand shares by exercises of stock options and sales of 2 thousand less-than-one-unit shares.

**(b) Matters related to the subscription rights to shares**

| | | Millions of Yen | Thousands of U.S. Dollars |
|---|---|---|---|
| Class | Details | **Balance** | |
| the Company | Stock option | **¥ 99** | **$ 993** |

As of March 31, 2009 these rights are not yet exercisable.

**(c) Matters related to dividends**

(1) Dividend payment

Approved at ordinary general meeting of shareholders held on June 21, 2007 as follows:

| Dividends on common stock | | |
|---|---|---|
| Total amount of dividends | ¥ 985 million | $ 9,853 thousand |
| Dividends per share | ¥ 5.00 | $ 0.05 |
| Record date | March 31, 2007 | |
| Effective date | June 22, 2007 | |

Approved at the Board of Directors at meeting held on October 31, 2007 as follows;

| Dividends on common stock | | |
|---|---|---|
| Total amount of dividends | ¥ 981 million | $ 9,808 thousand |
| Dividends per share | ¥ 5.00 | $ 0.05 |
| Record date | September 30, 2007 | |
| Effective date | November 20, 2007 | |

(2) Dividend whose record date is attributable to the year ended March 31, 2008 but to be effective after the said fiscal year.

Approved by the Company at the general meeting of shareholders held on June 20, 2008 as follows:

| Dividends on common stock | | |
|---|---|---|
| Total amount of dividends | ¥ 981 million | $ 9,810 thousand |
| Dividends per share | ¥ 5.00 | $ 0.05 |
| Record date | March 31, 2008 | |
| Effective date | June 23, 2008 | |

Dividends are paid out of retained earnings.

### 12. Consolidated Statements of Cash flows

**Fiscal year ended March 31, 2009**

Reconciliation between 'Cash and deposit' on the Consolidated Balance Sheets and 'Cash and cash equivalents' on the Consolidated Statements of Cash Flows is as follows:

| | Millions of Yen | Thousands of U.S. Dollars |
|---|---|---|
| | **2009** | **2009** |
| Cash and deposit | **¥ 37,312** | **$ 380,734** |
| Short-term investment | **245** | **2,503** |
| Total | **37,557** | **383,237** |
| Time deposit more than 3 months | **(161)** | **(1,643)** |
| Cash and cash equivalents of the company | **¥ 37,396** | **$ 381,594** |

**Fiscal year ended March 31, 2008**

Assets and liabilities of Kentucky Advanced Forge LLC, and relationship to the sales price and net cash inflow from the sale, which are included in "Proceeds from sale of shares of former consolidated subsidiaries" for the year ended March 31, 2008 are as follows:

| | Millions of Yen |
|---|---|
| | 2008 |
| Current assets | ¥ 516 |
| Non current assets | 291 |
| Current liabilities | (185) |
| Minority interests | (379) |
| Sales price of the company | 243 |
| Cash and cash equivalents of the company | (10) |
| Net cash provided by sales of the company | ¥ 233 |

Reconciliation between 'Cash and deposit' on the Consolidated Balance Sheets and 'Cash and cash equivalents' on the Consolidated Statements of Cash Flows is as follows:

| | Millions of Yen |
|---|---|
| | 2008 |
| Cash and deposit | ¥ 30,408 |
| Short-term investment | 245 |
| Total | 30,653 |
| Time deposit more than 3 months | (161) |
| Cash and cash equivalents of the company | ¥ 30,492 |

### 13. Lease Transactions

**(a) Finance lease contracts**

The Company and its subsidiaries use certain machinery and equipment obtained via finance lease contracts.

Pro forma information regarding the leased property such as acquisition cost, accumulated depreciation and future minimum lease payments under finance leases that do not transfer the ownership of the leased property to the lessee at March 31, 2009 and 2008 are as follows:

| | Millions of Yen | | |
|---|---|---|---|
| | Acquisition Cost | Accumulated Depreciation | Balance |
| **At March 31, 2009:** | | | |
| Machinery | **¥ 641** | **¥ 381** | **¥ 260** |
| Equipment | **372** | **263** | **109** |
| Total | **¥ 1,013** | **¥ 644** | **¥ 369** |
| **At March 31, 2008:** | | | |
| Machinery | ¥ 803 | ¥ 414 | ¥ 389 |
| Equipment | 549 | 357 | 192 |
| Total | ¥ 1,352 | ¥ 771 | ¥ 581 |

| | Thousands of U.S. Dollars | | |
|---|---|---|---|
| | Acquisition Cost | Accumulated Depreciation | Balance |
| **At March 31, 2009:** | | | |
| Machinery | **$ 6,539** | **$ 3,884** | **$ 2,655** |
| Equipment | **3,802** | **2,687** | **1,115** |
| Total | **$ 10,341** | **$ 6,571** | **$ 3,770** |

Acquisition costs include the imputed interest expense portion because the percentage which is computed by dividing future minimum lease payments by total balance of machinery and equipment at year-end is immaterial.

Aggregate minimum future lease obligations at March 31, 2009 and 2008 and lease expenses for the year then ended are as follows:

| | Millions of Yen | | Thousands of U.S. Dollars |
|---|---|---|---|
| | **2009** | 2008 | **2009** |
| Due within one year | **¥ 166** | ¥ 202 | **$ 1,695** |
| Due over one year | **203** | 379 | **2,075** |
| Total | **369** | 581 | **3,770** |
| Lease expenses for the year | **¥ 196** | ¥ 365 | **$ 1,995** |

Pro forma amounts of acquisition costs and future minimum lease payments under finance leases include the imputed interest expense portion. Pro forma depreciation expenses, which are not reflected in the accompanying consolidated statements of income, computed by the straight line method, would be ¥196 million ($1,995 thousand) and ¥365 million for the years ended March 31, 2009 and 2008, respectively.

**(b) Operating lease contracts**

Aggregate minimum future lease obligations for non cancelable operating lease contracts at March 31, 2009 and 2008 are as follows:

| | Millions of Yen | | Thousands of U.S. Dollars |
|---|---|---|---|
| | **2009** | 2008 | **2009** |
| Due within one year | **¥ 67** | ¥ - | **$ 685** |
| Due over one year | **180** | - | **1,838** |
| Total | **¥ 247** | ¥ - | **$ 2,523** |

## 14. Derivative Financial Instruments

The Company and its subsidiaries have entered into foreign currency swap contracts and foreign exchange forward contracts. The Company uses foreign currency swap contracts to reduce its own exposure to fluctuations in exchange rate principally for hedge purposes in respect of its long-term loan to one overseas subsidiary denominated in U.S. Dollars. The Company's subsidiaries use foreign exchange forward contracts to manage their exposure to foreign currency exchange rate fluctuations in respect of their importing activities.
A summary of foreign currency swap contracts and foreign exchange forward contracts outstanding, excluding those for a hedge of assets recognized on accompanying consolidated balance sheets, at March 31, 2009 and 2008 are as follows:

| | Millions of Yen | | |
|---|---|---|---|
| | Contract amounts | Fair value | Net unrealized gain |
| **At March 31, 2009:** | | | |
| Receiving Japanese Yen, paying U.S. Dollar | **¥ 2,583** | **¥ 415** | **¥ 415** |
| Foreign exchange forward contracts | **182** | **182** | **(0)** |
| | **¥ 2,765** | **¥ 597** | **¥ 415** |
| **At March 31, 2008:** | | | |
| Receiving Japanese Yen, paying U.S. Dollar | ¥ 3,636 | ¥ 556 | ¥ 556 |
| Foreign exchange forward contracts | 168 | 168 | (0) |
| | ¥ 3,804 | ¥ 724 | ¥ 556 |

| | Thousands of U.S. Dollars | | |
|---|---|---|---|
| | Contract amounts | Fair value | Net unrealized gain |
| **At March 31, 2009:** | | | |
| Receiving Japanese Yen, paying U.S. Dollar | **$ 26,361** | **$ 4,240** | **$ 4,240** |
| Foreign exchange forward contracts | **1,856** | **1,855** | **(1)** |
| | **$ 28,217** | **$ 6,095** | **$ 4,239** |

Note:
Fair value of foreign currency swap contracts is calculated based on the market price. Fair value of foreign exchange forward contracts is calculated based on the price provided by a bank.

## 15. Employees' retirement benefit liabilities

**(a) Overview of retirement benefit plans**

The Company operates two non-contributory defined benefit retirement plans and a defined contribution pension plan. Defined benefit retirement plans consist of a lump-sum retirement plan and an enterprise pension plan. The Company established an employee retirement benefit trust for defined benefit retirement plans.
The enterprise pension benefits are payable as pension payment or lump-sum payment at the option of terminated employees.

Domestic subsidiaries and an overseas subsidiary operate a non-contributory tax qualified pension plan and a lump-sum retirement plan.

**(b) Projected benefit obligation at March 31, 2009 and 2008 are as follows:**

| | Millions of Yen | | Thousands of U.S. Dollars |
|---|---|---|---|
| | **2009** | 2008 | **2009** |
| (1) Projected benefit obligation | **¥ (28,077)** | ¥ (28,988) | **$ (286,502)** |
| (2) Fair value of pension plan assets (including retirement benefit trust) | **26,127** | 35,282 | **266,601** |
| (3) Subtotal [(1)+(2)] | **(1,950)** | 6,294 | **(19,901)** |
| (4) Unrecognized actuarial (gains)losses | **8,430** | 39 | **86,019** |
| (5) Unrecognized prior service cost | **(1,283)** | (1,419) | **(13,093)** |
| (6) Prepaid pension cost | **14,361** | 13,922 | **146,534** |
| Employees' retirement benefit liabilities [(3)+(4)+(5)-(6)] | **¥ (9,164)** | ¥ (9,008) | **$ (93,509)** |

Note:
Subsidiaries have adopted the simplified method in calculation of the projected benefit obligations, based on the amount which would be required if all eligible employees voluntarily terminated their employment, less pension plan assets as of the year-end.

**(c) The components of retirement benefit expense for the years ended March 31, 2009 and 2008 are as follows:**

| | Millions of Yen | | Thousands of U.S. Dollars |
|---|---|---|---|
| | **2009** | 2008 | **2009** |
| (1) Service cost (Notes) | **¥ 980** | ¥ 970 | **$ 10,006** |
| (2) Interest cost | **570** | 578 | **5,815** |
| (3) Expected return on pension plan assets | **(294)** | (325) | **(3,002)** |
| (4) Amortization of unrecognized actuarial losses | **75** | (539) | **769** |
| (5) Amortization of unrecognized prior service cost | **(135)** | (135) | **(1,383)** |
| (6) Retirement benefit expense [(1)+(2)+(3)+(4)+(5)] | **1,196** | 549 | **12,205** |
| (7)Contribution payments to the defined contribution retirement benefit plans | **207** | 200 | **2,109** |
| (8) Total [(6)+(7)] | **¥ 1,403** | ¥ 749 | **$ 14,314** |

Notes:
1.The retirement benefit expense of subsidiaries is included in "(1) Service cost".
2.Retirement benefit expense for executive officers is included in "(1) Service cost".

**(d) Major assumptions used in calculation of above information for the years ended March 31, 2009 and 2008 are as follows:**

| | **2009** | 2008 |
|---|---|---|
| Discount rate | **2.0%** | 2.0% |
| Expected rate of return on pension plan assets | **2.0%** | 2.0% |
| Period allocation method for estimated retirement benefits | **Straight-line method** | Straight-line method |
| Amortization period of unrecognized actuarial gains or losses | **15 years (Expenses from next fiscal year)** | 15 years (Expenses from next fiscal year) |
| Amortization period of prior service cost | **15-16 years** | 15 years |

## 16. Share-based Payment

**(a) Stock option expenses for the years ended March 31, 2009 and 2008 are as follows:**

| | Millions of Yen | | Thousands of U.S. Dollars |
|---|---|---|---|
| | **2009** | 2008 | **2009** |
| Salaries and allowances and welfare expenses | **¥ 31** | ¥ 37 | **$ 322** |
| Other selling, general and administrative expenses | **20** | 31 | **200** |
| Personnel expenses | **¥ 51** | ¥ 68 | **$ 522** |

**(b) Details, number and state of fluctuation of stock options**

(1) Details of stock option

For the year ended March 31, 2009

| Year of issue | **2009** | 2008 | 2007 | 2006 | 2005 |
|---|---|---|---|---|---|
| Position and number of grantees | Directors: 15<br>Executive officers: 13<br>Selected employees: 25 | Directors: 15<br>Executive officers: 12<br>Selected employees: 29 | Directors: 15<br>Executive officers: 12<br>Selected employees: 29 | Directors: 15<br>Executive officers: 11<br>Selected employees: 26 | Directors: 15<br>Executive officers: 10<br>Selected employees: 25 |
| Class and number of stock | Common stock:<br>455,000 | Common stock:<br>470,000 | Common stock:<br>490,000 | Common stock:<br>450,000 | Common stock:<br>870,000 |
| Date of issue | August 1,2008 | August 1,2007 | August 1,2006 | August 1,2005 | August 2,2004 |
| Condition of settlement of the stock options | Grantee must be a director, executive officer or employee of the Company at the time of exercise of the stock options. However, grantee can exercise the stock options for 12 months after retirement or resignation from the Company. | Same as left | Same as left | Same as left | Same as left |
| Periods that grantees must provide service in return for the stock options | From August 1, 2008 to July 31, 2010 | From August 1, 2007 to July 31, 2009 | From August 1, 2006 to July 31, 2008 | From August 1, 2005 to July 31, 2007 | From August 2, 2004 to July 31, 2006 |
| Exercise period of the stock options | From August 1, 2010 to July 31, 2015 | From August 1, 2009 to July 31, 2014 | From August 1, 2008 to July 31, 2013 | From August 1, 2007 to July 31, 2012 | From August 1, 2006 to July 31, 2011 |

For the year ended March 31, 2008

| Year of issue | 2008 | 2007 | 2006 | 2005 |
|---|---|---|---|---|
| Position and number of grantees | Directors: 15<br>Executive officers: 12<br>Selected employees: 29 | Directors: 15<br>Executive officers: 12<br>Selected employees: 29 | Directors: 15<br>Executive officers: 11<br>Selected employees: 26 | Directors: 15<br>Executive officers: 10<br>Selected employees: 25 |
| Class and number of stock | Common stock:470,000 | Common stock:490,000 | Common stock:450,000 | Common stock:870,000 |
| Date of issue | August 1,2007 | August 1,2006 | August 1,2005 | August 2,2004 |
| Condition of settlement of the stock options | Grantee must be a director, executive officer or employee of the Company at the time of exercise of the stock options. However, grantee can exercise the stock options for 12 months after retirement or resignation from the Company. | Same as left | Same as left | Same as left |
| Periods that grantees must provide service in return for the stock options | From August 1, 2007 to July 31, 2009 | From August 1, 2006 to July 31, 2008 | From August 1, 2005 to July 31, 2007 | From August 2, 2004 to July 31, 2006 |
| Exercise period of the stock options | From August 1, 2009 to July 31, 2014 | From August 1, 2008 to July 31, 2013 | From August 1, 2007 to July 31, 2012 | From August 1, 2006 to July 31, 2011 |

(2) Number of stock options and state of fluctuation

Stock options outstanding at the end of the year are listed as the number of shares.

①Number of stock options

For the year ended March 31, 2009

| Year of issue | **2009** | 2008 | 2007 | 2006 | 2005 |
|---|---|---|---|---|---|
| Non-exercisable stock options | | | | | |
| Stock options outstanding at the end of the previous fiscal year | **-** | 470,000 | 485,000 | - | - |
| Stock options granted | **455,000** | - | - | - | - |
| Forfeitures | **-** | 10,000 | 70,000 | - | - |
| Conversion to exercisable stock options | **-** | - | 415,000 | - | - |
| Stock options outstanding at the end of the fiscal year | **455,000** | 460,000 | - | - | - |
| Exercisable stock options | | | | | |
| Stock options outstanding at the end of the previous fiscal year | **-** | - | - | 402,000 | 310,000 |
| Conversion from non-exercisable stock options | **-** | - | 415,000 | - | - |
| Stock options exercised | **-** | - | - | - | 4,000 |
| Forfeitures | **-** | - | 10,000 | - | - |
| Stock options outstanding at the end of the fiscal year | **-** | - | 405,000 | 402,000 | 306,000 |

For the year ended March 31, 2008

| Year of issue | **2008** | 2007 | 2006 | 2005 |
|---|---|---|---|---|
| Non-exercisable stock options | | | | |
| Stock options outstanding at the end of the previous fiscal year | **-** | 490,000 | 450,000 | - |
| Stock options granted | **470,000** | - | - | - |
| Forfeitures | **-** | 5,000 | - | - |
| Conversion to exercisable stock options | **-** | - | 450,000 | - |
| Stock options outstanding at the end of the fiscal year | **470,000** | 485,000 | - | - |
| Exercisable stock options | | | | |
| Stock options outstanding at the end of the previous fiscal year | **-** | - | - | 396,000 |
| Conversion from non-exercisable stock options | **-** | - | 450,000 | - |
| Stock options exercised | **-** | - | 48,000 | 86,000 |
| Forfeitures | **-** | - | - | - |
| Stock options outstanding at the end of the fiscal year | **-** | - | 402,000 | 310,000 |

②Unit price of options

| For the year ended 31 March, 2009 | Yen | | | | |
|---|---|---|---|---|---|
| Year of issue | **2009** | 2008 | 2007 | 2006 | 2005 |
| Exercise price | **¥ 482** | ¥ 698 | ¥ 800 | ¥ 630 | ¥ 503 |
| Average market price of the stock at the time of exercise | **-** | - | - | - | 496 |
| Fair value of stock options on the grant date | **109** | 143 | 189 | - | - |

| For the year ended 31 March, 2008 | Yen | | | |
|---|---|---|---|---|
| Year of issue | **2008** | 2007 | 2006 | 2005 |
| Exercise price | **¥ 698** | ¥ 800 | ¥ 630 | ¥ 503 |
| Average market price of the stock at the time of exercise | **-** | - | 619 | 610 |
| Fair value of stock options on the grant date | **143** | 189 | - | - |

**(c) Method for estimating fair value of stock options**

The method and assumptions for estimating fair value of stock options during the years ended March 31, 2009 and 2008 are summarised as follows:

| ① Valuation method used<br>② Principal basic values and estimation methods | Black-Scholes model | |
|---|---|---|
| Year of issue | **2009** | 2008 |
| Share price fluctuations (Note 1) | 34.20% | 32.86% |
| Projected remaining period (Note 2) | 4 years 6 month | 4 years 6 month |
| Projected dividend (Note 3) | ¥ 10 per share | ¥ 10 per share |
| Risk-free interest rate (Note 4) | 1.254% | 1.561% |

Notes:

1.Computed based on actual share prices during a four-year and six-month period (from February 2004 to July 2008 for the year ended March 31, 2009 and from February 2003 to July 2007 for the year ended March 31, 2008).

2.Because of a lack of accumulated data and difficulty in making supportable estimates, it is assumed the stock options are exercised at the midpoint of the exercise period.

3.Based on the estimated dividend for the years ended March 31, 2009 and 2008 on the grant date.

4.Yields on government bonds for the period corresponding to the projected remaining period.

# Notes to Consolidated Financial Statements



**(d) Method for estimating the number of comfirmed stock options**

A method that reflects actual past expirations has been basically adopted, because it is difficult to rationally estimate the number of expired rights in the future.

## 17. Deferred Tax

The significant components of deferred tax assets and liabilities at March 31, 2009 and 2008 are as follows:

| | Millions of Yen | | Thousands of U.S. Dollars |
|---|---|---|---|
| | **2009** | 2008 | **2009** |
| Deferred tax assets: | | | |
| Employees' retirement benefit liabilities | **¥ 4,103** | ¥ (52) | **$ 41,867** |
| Tax losses carried forward in subsidiaries | **3,763** | 2,246 | **38,397** |
| Supplies adjustments | **2,545** | 2,433 | **25,972** |
| Accrued bonuses | **1,159** | 1,438 | **11,822** |
| Software and other assets | **706** | 733 | **7,204** |
| Inventories | **674** | 745 | **6,880** |
| Impairment loss on fixed assets | **551** | 291 | **5,626** |
| Goodwill | **437** | 667 | **4,459** |
| Retirement benefit obligation for directors and corporate auditors | **391** | 480 | **3,986** |
| Depreciation | **348** | 275 | **3,549** |
| Write-down of investment securities | **307** | 314 | **3,136** |
| Loss on disposal of property, plant and equipment | **111** | 125 | **1,137** |
| Other | **627** | 866 | **6,399** |
| | **15,722** | 10,561 | **160,434** |
| Less, valuation allowance | **(14,525)** | (2,516) | **(148,218)** |
| Deferred tax assets | **1,197** | 8,045 | **12,216** |
| Deferred tax liabilities: | | | |
| Prepaid pension cost | **(4,219)** | - | **(43,050)** |
| Unrealized gains on available-for-sale securities | **(1,762)** | (4,129) | **(17,981)** |
| Depreciation of property, in overseas subsidiaries | **(445)** | (575) | **(4,543)** |
| Reserve for advanced depreciation | **(97)** | (97) | **(987)** |
| Reserve for special depreciation | **(0)** | (1) | **(1)** |
| Other | **(186)** | (130) | **(1,899)** |
| Deferred tax liabilities | **(6,709)** | (4,932) | **(68,461)** |
| Net deferred tax (liability) / asset | **¥ (5,512)** | ¥ 3,113 | **$ (56,245)** |

The differences between the Japanese statutory tax rate and the actual effective income tax rate in pretax income for the year ended March 31, 2009 are not described because a loss before income taxes and minority interests was reported.

The differences between the Japanese statutory tax rate and the actual effective income tax rate in pretax income for the year ended March 31, 2008 are as follows:

| | 2008 |
|---|---|
| Japanese statutory tax rate | 40.0% |
| Increase(decrease) due to: | |
| Tax credit of R&D expenses and other | (3.0) |
| Differences of tax rates in foreign subsidiaries | (1.8) |
| Others | (1.3) |
| Actual effective income tax rate | 33.9 |

## 18. Related Party Transactions

The following transactions were carried out with related parties:

**(a) Transactions with Toyota Motor Corporation for the years ended March 31, 2009 and 2008, and balances outstanding as at those dates are as follows:**

| | Millions of Yen | | Thousands of U.S. Dollars |
|---|---|---|---|
| | **2009** | 2008 | **2009** |
| For the year: Sales of goods | **¥ 23,237** | ¥ 30,054 | **$ 237,117** |
| At the year-end: Accounts receivable | **¥ 1,839** | ¥ 4,090 | **$ 18,764** |

Notes:

1.Toyota Motor Corporation held 24.1% of the Company's equity interests directly, and indirectly held a further 0.5% at March 31, 2009. The above transactions were conducted using normal commercial terms and conditions.

2.Every year, the Company present their favorable sales price and negotiate it with Toyota Motor Corporation. The procedure is the same as other common transactions.

3.Sales of goods and Accounts receivable are presented exclusive of consumption taxes.

**(b) Purchases of services from Aichi Steel Health Insurance Society for the years ended March 31, 2009 and 2008 are as follows:**

| | Millions of Yen | | Thousands of U.S. Dollars |
|---|---|---|---|
| | **2009** | 2008 | **2009** |
| Purchase of service | **¥ -** | ¥ 9 | **$ -** |

Notes:

1.The Company pays a portion of a claim of medical fee from Aichi Steel Health Insurance Society following approval by the Board of Directors at meeting held May 30, 2006.

2.Chairmen of Aichi Steel Health Insurance Society was Takayuki Ito, director of the Company who held 0.0% to the Company's shares at March 31, 2008.

3.Purchases of services are presented exclusive of consumption taxes.

## 19. Segment Information

**(1)Business segment information**

The Company and its subsidiaries operations primarily consist of the manufacture and sale of specialty steel business, forging business, electro-magnetic components business and other misecellaneous businesses. The specialty steel segment consists of specialty iron steel, stainless steel and tool steel. Forging segment includes closed die forging for automobile parts and free forging products. A portion of the materials used by the forging segment are goods produced by the specialty steel segment. Electro-magnetic components segment comprises sale off materials for electronics parts, dental-use magnetic attachments, magnetic powder and magneto-impedance sensors. Other segment is consists of information processing service, nursing care service and other service businesses.

The table below summarizes the business segment information for the years ended March 31, 2009 and 2008 are as follows:

| | Millions of Yen | | | | | | |
|---|---|---|---|---|---|---|---|
| | Specialty steel | Forgings | Electro-magnetic components | Other | Total | Corporate or elimination | Consolidated |
| **For the year 2009:** | | | | | | | |
| Net sales: | | | | | | | |
| External customers | ¥ 129,006 | ¥ 85,896 | ¥ 3,380 | ¥ 3,778 | ¥ 222,060 | ¥ - | ¥ 222,060 |
| Inter-segment sales | 28,480 | - | - | 3,127 | 31,607 | (31,607) | - |
| Total net sales | 157,486 | 85,896 | 3,380 | 6,905 | 253,667 | (31,607) | 222,060 |
| Operating costs and expenses | 154,838 | 86,743 | 5,871 | 6,888 | 254,340 | (31,797) | 222,543 |
| Operating income (loss) | ¥ 2,648 | ¥ (847) | ¥ (2,491) | ¥ 17 | ¥ (673) | ¥ 190 | ¥ (483) |
| Identifiable assets | ¥ 102,249 | ¥ 64,367 | ¥ 10,566 | ¥ 3,486 | ¥ 180,668 | ¥ 39,349 | ¥ 220,017 |
| Depreciation | 6,568 | 7,063 | 1,083 | 81 | 14,795 | - | 14,795 |
| Impairment loss on fixed assets | 118 | 525 | 171 | - | 814 | - | 814 |
| Capital expenditures | 7,004 | 4,018 | 3,129 | 317 | 14,468 | - | 14,468 |
| **For the year 2008:** | | | | | | | |
| Net sales: | | | | | | | |
| External customers | ¥ 140,282 | ¥ 104,324 | ¥ 4,417 | ¥ 4,439 | ¥ 253,462 | ¥ - | ¥ 253,462 |
| Inter-segment sales | 31,691 | - | - | 3,420 | 35,111 | (35,111) | - |
| Total net sales | 171,973 | 104,324 | 4,417 | 7,859 | 288,573 | (35,111) | 253,462 |
| Operating costs and expenses | 163,507 | 100,137 | 6,321 | 7,737 | 277,702 | (35,124) | 242,578 |
| Operating income (loss) | ¥ 8,466 | ¥ 4,187 | ¥ (1,904) | ¥ 122 | ¥ 10,871 | ¥ 13 | ¥ 10,884 |
| Identifiable assets | ¥ 131,144 | ¥ 84,479 | ¥ 9,991 | ¥ 3,940 | ¥ 229,554 | ¥ 34,494 | ¥ 264,048 |
| Depreciation | 6,394 | 7,310 | 984 | 66 | 14,754 | - | 14,754 |
| Impairment loss on fixed assets | 67 | 80 | 3 | - | 150 | 127 | 277 |
| Capital expenditures | 6,289 | 5,432 | 1,239 | 205 | 13,165 | - | 13,165 |
| **For the year 2009:** | Thousands of U.S. Dollars | | | | | | |
| Net sales: | | | | | | | |
| External customers | $ 1,316,394 | $ 876,486 | $ 34,494 | $ 38,546 | $ 2,265,920 | $ - | $ 2,265,920 |
| Inter-segment sales | 290,609 | - | - | 31,914 | 322,523 | (322,523) | - |
| Total net sales | 1,607,003 | 876,486 | 34,494 | 70,460 | 2,588,443 | (322,523) | 2,265,920 |
| Operating costs and expenses | 1,579,985 | 885,129 | 59,908 | 70,283 | 2,595,305 | (324,458) | 2,270,847 |
| Operating income (loss) | $ 27,018 | $ (8,643) | $ (25,414) | $ 177 | $ (6,862) | $ 1,935 | $ (4,927) |
| Identifiable assets | $ 1,043,356 | $ 656,810 | $ 107,814 | $ 35,576 | $ 1,843,556 | $ 401,517 | $ 2,245,073 |
| Depreciation | 67,022 | 72,069 | 11,047 | 830 | 150,968 | - | 150,968 |
| Impairment loss on fixed assets | 1,201 | 5,354 | 1,750 | - | 8,305 | - | 8,305 |
| Capital expenditures | 71,474 | 40,998 | 31,931 | 3,229 | 147,632 | - | 147,632 |

# Notes to Consolidated Financial Statements



Notes:

1. Corporate assets in corporate or elimination consist mainly of cash and deposit and investment securities held by the Company. Corporate assets are ¥40,530 million ($413,576 thousand) and ¥35,531 million at March 31, 2009 and 2008, respectively.
2. As described in Note 2(e) (Accounting change), effective from the year ended March 31,2009, the Company and its domestic subsidiaries have adopted Financial Accounting Standard No.9 'Accounting Standard for Evaluation of Inventory' issued on July 5, 2006. As a result of the adoption, operating income of specialty steel business segment and other business segment decreased by ¥2,063 million ($21,054 thousand) and by ¥41 million ($415 thousand), and operating loss of forging business segment and electro-magnetic components business segment increased by ¥339 million ($3,460 thousand) and by ¥209 million ($2,128 thousand), respectively, as compared with the previous accounting method.
   As described in Note 2(f) (Additional information), effective from the year ended Mar 31, 2009, the Company and its domestic subsidiaries have changed depreciation year for a part of property, plant and equipment by chance of tax reform in 2008. As a result of the change, operating income of specialty steel business segment and other business segment decreased by ¥68 million ($695 thousand) and by ¥0 million ($0 thousand), and operating loss of forging business segment and electro-magnetic components business segment increased by ¥907 million ($9,254 thousand) and by ¥38 million ($384 thousand), respectively, as compared with the previous accounting method.
3. As described in Note 2(f) (Accounting change), effective from the year ended March 31, 2008, the Company and its domestic subsidiaries have changed their depreciation methods for the property, plant and equipment acquired on or after April 1, 2007. As a result of the change, operating income of specialty steel business segment, forging business segment and other business segment decreased by ¥120 million, by ¥128 million and by ¥2 million, and operating loss of electro-magnetic components business segment increased by ¥42 million, respectively, as compared with the previous accounting method.
   As described in Note 2(f) (Additional information), effective from the year ended March 31, 2008, the Company and its domestic subsidiaries depreciate the property, plant and equipment acquired before April 1, 2007 from 5% of their cost to ¥1 by the straight-line method for 5 years from the following year the property, plant and equipment reach 5% of their cost calculated by pre-revised depreciation method. As a result of the change, operating income of specialty steel business segment, forging business segment and other business segment decreased by ¥868 million, by ¥200 million and by ¥1 million, and operating loss of electro-magnetic components business segment increased by ¥18 million, respectively, as compared with the previous accounting method.

**(2)Geographic segment information**

The table below summarizes the geographic segment information for the years ended March 31, 2009 and 2008 are as follows:

| | Millions of Yen | | | | | | |
|---|---|---|---|---|---|---|---|
| | Japan | North America | Europe | Asia | Total | Corporate or elimination | Consolidated |
| **For the year 2009:** | | | | | | | |
| Net sales: | | | | | | | |
| External customers | ¥ 193,107 | ¥ 9,280 | ¥ 1,552 | ¥ 18,121 | ¥ 222,060 | ¥ - | ¥ 222,060 |
| Inter-segment sales | 7,557 | - | - | 100 | 7,657 | (7,657) | - |
| Total net sales | 200,664 | 9,280 | 1,552 | 18,221 | 229,717 | (7,657) | 222,060 |
| Operating costs and expenses | 203,037 | 8,883 | 1,650 | 16,827 | 230,397 | (7,854) | 222,543 |
| Operating income (loss) | ¥ (2,373) | ¥ 397 | ¥ (98) | ¥ 1,394 | ¥ (680) | ¥ 197 | ¥ (483) |
| Identifiable assets | ¥ 171,073 | ¥ 8,548 | ¥ 956 | ¥ 15,000 | ¥ 195,577 | ¥ 24,440 | ¥ 220,017 |
| **For the year 2008:** | | | | | | | |
| Net sales: | | | | | | | |
| External customers | ¥ 220,095 | ¥ 14,090 | ¥ 1,708 | ¥ 17,569 | ¥ 253,462 | ¥ - | ¥ 253,462 |
| Inter-segment sales | 6,879 | - | - | - | 6,879 | (6,879) | - |
| Total net sales | 226,974 | 14,090 | 1,708 | 17,569 | 260,341 | (6,879) | 253,462 |
| Operating costs and expenses | 218,787 | 13,392 | 1,671 | 15,624 | 249,474 | (6,896) | 242,578 |
| Operating income (loss) | ¥ 8,187 | ¥ 698 | ¥ 37 | ¥ 1,945 | ¥ 10,867 | ¥ 17 | ¥ 10,884 |
| Identifiable assets | ¥ 214,090 | ¥ 8,743 | ¥ 1,170 | ¥ 19,209 | ¥ 243,212 | ¥ 20,836 | ¥ 264,048 |
| **For the year 2009:** | Thousands of U.S. Dollars | | | | | | |
| Net sales: | | | | | | | |
| External customers | $ 1,970,476 | $ 94,692 | $ 15,838 | $ 184,914 | $ 2,265,920 | $ - | $ 2,265,920 |
| Inter-segment sales | 77,111 | - | - | 1,019 | 78,130 | (78,130) | - |
| Total net sales | 2,047,587 | 94,692 | 15,838 | 185,933 | 2,344,050 | (78,130) | 2,265,920 |
| Operating costs and expenses | 2,071,807 | 90,643 | 16,835 | 171,706 | 2,350,991 | (80,144) | 2,270,847 |
| Operating income (loss) | $ (24,220) | $ 4,049 | $ (997) | $ 14,227 | $ (6,941) | $ 2,014 | $ (4,927) |
| Identifiable assets | $ 1,745,640 | $ 87,227 | $ 9,757 | $ 153,061 | $ 1,995,685 | $ 249,388 | $ 2,245,073 |

Notes:

1. Corporate assets in corporate or elimination consist mainly of cash and deposit and investment securities held by the Company. Corporate assets are ¥40,530 million ($413,576 thousand) and ¥35,531 million at March 31, 2009 and 2008, respectively.
2. Countries or areas belonging to each segment are as follows;

| | 2009 | 2008 |
|---|---|---|
| North America | U.S.A. | U.S.A. |
| Europe | Germany, Czech Republic | Germany, Czech Republic |
| Asia | Philippine, Thailand, China, Indonesia, Taiwan | Philippine, Thailand, China, Indonesia, Taiwan |

3. As described in Note 2(e) (Accounting change), effective from the year ended March 31, 2009, the Company and its domestic subsidiaries have adopted Financial Accounting Standard No.9 'Accounting Standard for evaluation of inventory' issued on July 5, 2006. As a result of the change, operating loss of Japan region increased by ¥2,652 million ($27,058 thousand) as compared with the previous accounting method.
As described in Note 2(f) (Additional information), effective from the year ended March 31, 2009, the Company and its domestic subsidiaries depreciate have changed depreciation year for a part of property, plant and equipment by change of tax reform in 2008. As a result of the change, operating loss of Japan region increased by ¥1,013 million ($10,332 thousand) as compared with the previous accounting method.
4. As described in Note 2(f) (Accounting change), effective from the year ended March 31, 2008, the Company and its domestic subsidiaries have changed their depreciation methods for the property, plant and equipment acquired on or after April 1, 2007. As a result of the change, operating income of Japan region decreased by ¥292 million as compared with the previous accounting method.
As described in Note 2(f) (Additional information), effective from the year ended March 31, 2008, the Company and its domestic subsidiaries depreciate the property, plant and equipment acquired before April 1, 2007 from 5% of their cost to ¥1 by the straight-line method for 5 years from the following year the property, plant and equipment reach 5% of their cost calculated by pre-revised depreciation method. As a result of the change, operating income of Japan region decreased by ¥1,087 million as compared with the previous accounting method.

**(3) Sales to overseas customers**

For the years ended March 31, 2009 and 2008, overseas sales which included export sales from Japan and net sales of overseas consolidated subsidiaries other than Japan are summarized as follows:

| | Millions of Yen | | Thousands of U.S. Dollars |
|---|---|---|---|
| | **2009** | 2008 | **2009** |
| North America | **¥ 10,220** | ¥ 14,928 | **$ 104,284** |
| Europe | **1,677** | 2,148 | **17,118** |
| Asia | **26,292** | 27,858 | **268,283** |
| Other areas | **581** | 354 | **5,929** |
| | **¥ 38,770** | ¥ 45,288 | **$ 395,614** |
| Total consolidated net sales | **¥ 222,060** | ¥ 253,462 | **$ 2,265,920** |
| Percentage of overseas sales to total consolidated net sales | **17.5%** | 17.9% | **17.5%** |

Note:
Significant countries or areas belonging to each segment are as follows:

| | 2009 and 2008 |
|---|---|
| North America | U.S.A. |
| Europe | Germany, Netherlands, Switzerland |
| Asia | Thailand, China, Indonesia |
| Others | Oceania |

## 20. Per Share Data

Per share data for the years ended March 31, 2009 and 2008 are as follows:

| | Yen | | U.S. Dollars |
|---|---|---|---|
| | **2009** | 2008 | **2009** |
| Net assets per share | **¥ 508.16** | ¥ 624.49 | **$ 5.2** |
| Basic net income (loss) per share | **(71.89)** | 29.00 | **0.7** |
| Diluted net income per share | **-** | 26.23 | **-** |

**Basics used in calculation**

(a) Net assets per share

| | Millions of Yen | | Thousands of U.S. Dollars |
|---|---|---|---|
| | **2009** | 2008 | **2009** |
| Net assets | **¥ 104,396** | ¥ 128,155 | **$ 1,065,262** |
| Deduction from net assets | **4,695** | 5,629 | **47,906** |
| Subscription rights to shares | **149** | 99 | **1,516** |
| Minority interests | **4,546** | 5,530 | **46,390** |
| Net assets attributable to common stock | **99,701** | 122,526 | **1,017,356** |
| Number of common stock at the end of the fiscal year used for the calculation of net assets per share(Thousands of shares) | **196,201** | 196,201 | |

# Notes to Consolidated Financial Statements



(b) Basic net income per share and diluted net income per share

| | Millions of Yen | | Thousands of U.S. Dollars |
|---|---|---|---|
| | **2009** | 2008 | **2009** |
| Basic net income per share | | | |
| Net income | **¥ (14,105)** | ¥ 5,693 | **$ (143,929)** |
| Net income not attributable to common stock | **-** | - | **-** |
| Net income attributable to common stock | **(14,105)** | 5,693 | **(143,929)** |
| Average number of common stock shares in issue during the fiscal year (Thousands of shares) | **196,202** | 196,310 | |
| Diluted net income per share | | | |
| Adjustment for net income (After tax deduction) | **-** | 4 | **-** |
| Management fee for convertible bonds | **-** | 4 | **-** |
| Effect of dilutive Securities (Thousands of shares) | **-** | 20,903 | |
| Convertible bonds with subscription rights to shares (Thousands of shares) | **-** | 20,833 | |
| Stock option (Thousands of shares) | **-** | 70 | |
| Outline of dilutive Securities not included in the calculation of diluted net income per share because they do not have any dilutive effect | **Stock option issued on August 1,2005, 2006 and 2007: 2,122 units** | **Stock option issued on August 1,2005, 2006 and 2007: 1,362 units** | |

### 21. Subsequent Event

On June 19, 2009, shareholders of the Company approved the payment of year-end cash dividends to shareholders of record as of March 31, 2009, of ¥2.5 ($0.03) per share, or a total of ¥491 million ($5,005 thousand). As the result, cash dividends for the year totaled ¥7.5 ($0.08) per share, including interim dividend of ¥5.0 ($0.05).

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**Report of Independent Auditors**

To the Board of Directors of AICHI STEEL CORPORATION

We have audited the accompanying consolidated balance sheet of AICHI STEEL CORPORATION ("the Company") and its subsidiaries as of March 31,2009, and the related consolidated statements of income, changes in net assets and cash flows for the year then ended, all expressed in Japanese yen. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in Japan. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the Company and its subsidiaries as of March 31, 2009, and the results of their operations and their cash flows for the year then ended in conformity with accounting principles generally accepted in Japan.

As described in Note2(e) to the consolidated financial statements, effective from the year ended March 31, 2009, the Company and its domestic subsidiaries have adopted Financial Accounting Standard No.9 'Accounting Standard for Evaluation of Inventory' issued on July 5, 2006.

As described in Note2(f) to the consolidated financial statements, effective from the year ended March 31, 2009, the Company and its domestic subsidiaries have changed the depreciable period for a part of property, plant and equipment using the opportunity provided by the 2008 tax reform.

The U.S. dollar amounts in the accompanying consolidated financial statements with respect to the year ended March 31, 2009 are presented solely for convenience. Our audit also included the translation of Japanese yen amounts into U.S. dollar amounts and, in our opinion, such translation has been made on the basis described in Note1 (b) to the consolidated financial statements.

PricewaterhouseCoopers Aarata

October 23, 2009

AICHI STEEL CORPORATION

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